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EDITORIAL

As We See It

On Feb. 17, the Executive Board of the United Automobile Workers issued the following statement:

"We have contracts that create industrial stability. If the government in any way tampers with, abrogates or modifies those contracts then the government must assume responsibility for the chaos, the confusion and the breakdown of production that will inevitably result.

"We are prepared to fight just as hard to maintain our contracts as we had to fight to win them. That means, in plain language, full use of the strike weapon if such a course of action is forced upon us. We shall recommend such a course of action to our convention in Cleveland, April 1-5.

"We are confident that we will keep our contracts in any event whether the government chooses to pursue its inch-by-inch policy or whether it steps up now to its responsibility and protects the integrity of our contracts.

"The government should make up its mind now that it will act positively and sensibly and not force us into a fight every three months while uncertainty, chaos and confusion meanwhile serve to wreck the morale and plans of industrial workers."

One can scarcely doubt that this statement was issued with the full knowledge and approval of the United Labor Policy Committee, and that it accordingly represents far more than it would at first blush seem to represent. There can no longer be any question, if indeed there ever has been any question in informed minds, what the attitude of organized labor generally is to be toward at least one broad aspect of wage stabilization, so-called. This same Policy Committee had only a

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Let Chiang Kai-shek Open Second Front in Asia

By HON. JOSEPH W. MARTIN, Jr.*
U. S. Congressman from Massachusetts

Republican leader of the House of Representatives, stressing greatest issue in world today is struggle between free principles of liberty and godless materialism of communism and socialism, criticizes Administration's foreign policy and urges opening of a second front in Asia by the Formosan forces of Generalissimo Chiang Kai-shek. Says Chinese Reds cannot support two-front war, and since we are already at war with Red China, it is sound logic to support Chinese nationalists both strategically and militarily.

The great issue before the world today—an issue so vital that it affects every man, woman and child on earth—is: which will triumph, the forces of Marxism as embodied in communism and socialism, or the free principles of liberty and individual dignity of man which our civilization has evolved out of 3,000 years of experience?

Hon. J. W. Martin, Jr.

Shall it be the godless materialism of Marx, or the idealism instilled in us by the religious teachings of all faiths?

Shall it be the police state that triumphs, or shall political systems that recognize the essential dignity of man emerge victorious?

Shall we become the victims of secret police, or shall we walk the earth as free men fearing no one but God?

Shall our homes and our churches be liquidated, or shall the morality of the family and the basic religious teachings survive, mightier than ever?

Those are the questions. To meet them we must not only possess the finest qualities of spirit and the maximum of wisdom, but we must be able to translate those

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*An address by Cong. Martin at Lincoln Day Dinner of the Kings County Republican Committee, Brooklyn, N. Y., Feb. 12, 1951.

What's Ahead in 1951?

By WESLEY LINDOW*
Vice-President and Economist, Irving Trust Co., New York City

Maintaining transition problems arising from shifts to rearmament production will be short-lived and fairly easy to take, New York bank economist predicts physical volume of all goods and services in 1951 will increase about 5%, despite materials and labor bottlenecks. Foresees Federal taxes taking one-sixth of national product, with little change in output of civilian supplies. Holds, because of larger consumer income, more taxes will be paid along with greater saving and spending. Sees prices kept under "reasonably good control."

My assignment today is to give you an economic report on what's ahead in 1951. The best characterization I can make about 1951 is that it will be a year of transition. The rearmament program got started in 1950 but it will really put on steam in 1951. By the end of the year we are going to be living in a modified war economy in sharp contrast to the beginning of the year when practically all of our national economic energy was still being spent on peacetime matters.

Wesley Lindow

The new Federal budget uses a figure of $49 billion for military spending and for international aid for the fiscal year ending June 30, 1952. Total budget expenditures are placed at $71½ billion. Tax receipts under present law are estimated at $55 billion, leaving a deficit of $16½ billion.

These figures tell us the rough shape of things to come. They suggest that within the present calendar year military spending will more than double itself, beginning at an annual rate of around $20 billion and ending the year at an annual rate of something in the neighborhood of $45 or $50 billion. As everyone knows,

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*An address by Mr. Lindow before the National Furniture Warehousemen's Association, New York City, Feb. 14, 1951.

PICTURES IN THIS ISSUE—Pictures taken at the 27th Annual Dinner of the Boston Securities Traders Association, at the Parker House, Boston, appear on pages 23, 24, 25 and 26.

The Security I Like Best

A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

This Week's Forum Participants and Their Selections

Portland General Electric Company—R. K. Daugherty, President, Daugherty, Buchart & Cole, Portland, Ore. (Page 2)

Growth Companies—William H. Moore, Manager, Investment Department, J. & W. Seligman & Co., New York City. (Page 2)

Plymouth Cordage Company—Charles A. Taggart, President, Charles A. Taggart & Co., Inc., Philadelphia, Pa. (Page 46)

R. K. DAUGHERTY

President, Daugherty, Buchart & Cole, Portland, Ore.

Portland General Electric Company

Portland General Electric Company serves an area in the heart of one of the fastest growing regions of the world. However, this is but one of the many reasons for selecting PGE common stock as the security I like best.

R. K. Daugherty

Its services are vitally needed, abundantly used and provided at the lowest cost. As a result the company's earnings and operations have shown substantial growth over the past 10 years. Its future growth appears to be unlimited.

An Industry Is Born

The company is a pioneer in the field of hydroelectric power. The original Portland General Electric Company, incorporated in 1892, acquired at that time the Willamette Falls Electric Company. The latter, in 1889, built the first transmission line in the United States, a distance of 14 miles from Oregon City to Portland, to supply power for city lighting. Thus, an industry was born. It has grown and prospered. It continues to be vital and dynamic; ever conscious of its growing responsibility.

Portland General, Oldest and Largest System in Oregon

PGE facilities, oldest and largest utility system in Oregon, constitutes a well integrated unit devoted solely to production and distribution of electric energy. Lines of the company serve Portland, Salem, Oregon City and 41 other communities in the lower Willamette River valley. The area covers 2,300 square miles, with a population of 750,000 (50% of Oregon's total) and with 65% of the State's buying income.

Physical properties are in first-class condition, with plant values carried at original "bare-bones" cost.

Cheap Power Provides Highest Usage at Lowest Cost

PGE has come a long way in its 62 years of existence, but has had its greatest growth since 1939 when government power became available. The company was the first public utility to purchase electricity from Bonneville Power Administration. Today PGE is the largest distributor of BPA power. Still, it is not quite accurate to speak of it as simply a distributing utility. In 1950 a third of the power PGE distributed was generated in its own hydroelectric and steam plants, which have a total capacity of 194,000 kilowatts. The availability of this low-cost power encourages abundant domestic use and PGE's average residential use (5,344 kwh. in 1950) is three times the national average, at less than half the national average cost per kilowatt-hour. To illustrate this point, it might be of interest to know that there are more electric ranges in use in Portland than in New York City.

Growth of Service Area

During the past ten years, PGE has experienced a remarkable growth, gross business has more than doubled, while residential revenues have increased threefold and now account for 54.5% of total dollar revenues. Nevertheless, the prospective growth in the territory's population and overall economy gives promise of even larger expansion in the company's future operations. Management has proven to be farsighted and aggressive in expanding facilities to meet the ever-increasing service demands. Between 1945 and 1950 over $33,000,000 was expended for this purpose, increasing its plant investment by 48%. The expenditure of an additional $7,000,000 on distribution and transmission lines is planned for 1951, thus placing the system in a good position to meet defense and civilian requirements.

Capitalization of this well-managed electric utility consists of 60% debt and 40% common stock. Annual dividends on the 1¼ million shares outstanding are currently at the rate of $1.80 per share, which is less than 70% of five-year average earnings of about $2.60 per share. Per share earnings for 1950 are estimated at $2.65 with ample protection from present excess profits taxes.

The company is financially sound. Common stock equity and earnings compare well with those of the country's most favorably known electric utilities. Growth prospects, potentialities for further industrialization, added to a conservative capitalization and liberal return, make the common stock of this utility operating company, in my opinion, an unusually attractive investment for conservative individuals, trustees and insurance companies.

Selling in the over-the-counter market, it can be purchased to yield about 6½%.

WILLIAM H. MOORE

Manager, Investment Department, J. & W. Seligman & Co., N. Y. City

Growth Companies

About a year ago when I had the privilege of participating in this forum, I advocated a balancing of risks as the security I liked best for the future. During the year 1950 investment accounts managed by us on that basis enjoyed overall appreciation of about 12%, whereas the Dow - Jones Industrial stock average reflected an increase of 17.6% between year-ends. Our common stock holdings never exceeded about 50% of total value at market which entailed some sales on the way up. However, certain stocks or industry groups outperformed the Industrial average by a considerable margin. In our experience, particular benefit was derived from proportionately large commitments in oils and chemicals and certain rubber, paper and motor stocks. Thus, the selection of some better-than-average performers and the avoidance of serious laggards enabled a conservatively proportioned account to lag, not too seriously, a fully invested position in common stocks.

William H. Moore

In holding or selecting common stocks for the future we continue to stress better - than - average growth prospects. Such prospects are usually found among the companies regularly expending large amounts on research or exploration. However, this does not necessarily mean that unusual growth prospects exist only in such obvious fields as chemicals and oils. A particular railroad or steel company might be such a vehicle if unusual circumstances are evident or in prospect. As an example, I would site the railroads tapping the Alberta oil and gas areas where unusual population, industrial and financial expansion seems inevitable. My choice in that respect would be the common stock of the Minneapolis, St. Paul & Sault Ste. Marie which is soundly financed and enjoying satisfactory earnings. Calgary & Edmonton Corporation, Ltd., with substantial mineral rights in or under substantial acreage in the area, could also be a major beneficiary of the development.

Taking a broader outlook it seems probable that the development of peaceful uses of atomic energy and compounding discoveries in the field of medicinal chemistry hold unusual promise for the future. The increasing taxation of corporate profits will further stimulate research and development activity. However, only certain self-suggesting types of business can justifiably sustain a costly research program. In the field of atomic energy, the large chemical and electrical equipment companies seem the best situated presently to cope with the scientific and financial problems. Thus these fields of excellent past growth have before them an entirely new vista of opportunity.

In the field of medicinal chemistry the only phase of the business that one might call old is the compounding of drugs in a variety of useful forms. Vitamins, antibiotics and biologicals are all relatively young and have long useful futures to live. The use of radioactive isotopes may be the means of tracing and recording the causes and course of fatal diseases and malfunctioning of the human body. The great premature killers of today are the immediate goals and the struggle will be waged on academic and commercial fronts. However, the companies capable of mass production on a meticulous basis will carry the benefits to humanity. Such companies seem likely to enjoy better-than-average growth and therefore should be of particular interest to long-term investors. I would favor a cross-section selection of the well-known names. American Cyanamid is strong in the industrial and medicinal fields; Merck, Pfizer and Sharp & Dohme all have impressive records and Squibb and Abbott are fine manufacturers and excellent distributors.

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LETTERS TO THE EDITOR:

"Are We Falling Into History's Greatest Trap?"

More letters given in this issue in connection with Melchior Palyi's article in the "Chronicle" of January 11.

Provision is made in today's issue for publication of some more of the letters received relative to the article by Melchior Palyi, "Are We Falling Into History's Geratest Trap?", which appeared on the cover page of the "Chronicle" of Jan. 11. In his article, Dr. Palyi analyzed Soviet aggression techniques and asserted that the United States must either (1) restrict its defense zone to the Western Hemisphere or (2) promulgate a new Monroe Doctrine specifying the areas which we are prepared to defend against the march of communism. Continuance of our present foreign policy, and a policy of full and permanent mobilization, Dr. Palyi warned, can only lead to national bankruptcy.

In addition to the following letters, reference is made to the fact that others appeared in earlier issues, beginning with that of Jan. 18, and more will be given in next week's issue.

* * *

WIRT FRANKLIN
Ardmore, Okla.

Dr. Palyi has made what appears to me a striking analysis of the dilemma which this country faces and the action and program now under way toward a full mobilization of our readiness for war.

As Dr. Palyi so forcefully sets forth, we may be falling into a deliberate trap set by Stalin. I agree that it is time "to call shots in advance by making absolutely clear the lines we are to protect." Our present course of conduct, continued over a period of years, will undoubtedly lead to a leveling of all the people into a mediocrity, lowering our standard of living, and into regimentation and controls taking away the constitutional rights and liberties which this nation has always enjoyed.

* * *

HON. J. BRACKEN LEE
Governor, State of Utah,
Salt Lake City, Utah

The article by Dr. Palyi is very well written and seems both logical and sensible.

* * *

H. H. SCHELL
President, Sidney Blumenthal & Co. Inc., New York 16, N. Y.

I have read Dr. Palyi's article with real interest. I have been awfully busy lately since my recent European trip, where I, as you know, was a Delegate to the International Labor Organization.

I am Chairman of the United States Inter-American Council of Commerce and Production, which covers about 145 business organizations of the Latin American Republics. I am leaving tomorrow for New Orleans for a Trustees Meeting of this organization. From this you may judge that I do not have the time to write you as comprehensively as I would like and to give you the response which Mr. Palyi's intelligent article deserves.

However, I would agree, in general, with what he has to say. For the initiated and sophisticate of international affairs there are many pitfalls to be avoided when making any contracts committing the American people. The first rule we should adopt is to choose good, hard headed, American traders with, of course, a substantial background in international

* * *

THOS. J. WATSON
Chairman, International Business Machines Co., New York 22, N. Y.

Dr. Palyi has presented a very clear and comprehensive account of his views on the present international situation, and I was interested to read his analysis of the Soviet pattern of aggression, as well as his assessment of the industrial and military power of Russia. I am sure that everyone who has the opportunity to read the article will find Dr. Palyi's arguments and historical comparisons worthy of further study and discussion.

* * *

BERKELEY WILLIAMS
Richmond, Va.

Dr. Palyi has presented a clear appraisal of the present situation based on study and experience. It is cause for regret and concern that neither our President or any member of his Cabinet has ever either taken the time or had the disposition to make equal study.

As to future, no clear appraisal can possibly be made because: (1) We are at war. (2) There is nothing certain in war but uncertainty. (3) As a nation with the full knowledge and consent of Congress and the President, we are living beyond our means (excluding defense spending). (4) Inflation proceeds without a halt. (5) 3,500 press agents in the Executive Department and 45,000 press agents of other bureaus, at a cost of over $100 million a year to the taxpayer, are grinding out "Planning" and "Control" information to promote the idea that the cure for socialistic failure is more socialism, instead of telling the truth about socialism as provided by history.

So my answer to Dr. Palyi's question is "Yes, we are falling into history's greatest trap, and will go all the way unless Democrats and Republican's severally and jointly develop enough common sense and moral stamina to give the men of Teheran, Yalta and Potsdam the heave-ho."

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"Don't Miss the Caboose"

By HENRY GULLY
Investment Analyst, Ithaca, New York

Mr. Gully contends bullish factors have run their course; that recent seething markets are belated recognition of past inflation; that current market psychology will be dispelled by 40 to 50 point sharp break, or long bear market as in 1940-1941, a similar period of rising business, increasing orders, higher earnings, yet steadily lower stock prices.

In my last contribution to the "Commercial and Financial Chronicle," May 29, 1947, entitled "Last Call for the Diner," I endeavored to make a strong case for the purchase of stocks, not only because they appeared financially, economically and statistically cheap, but because they were even more attractive than they appeared to be when recognition was given to the amount of inflation which had been fused into the nation's bloodstream since the closing of the banks in 1933. Prompt purchases were recommended; hence, the title "Last Call for the Diner."

Henry Gully

From May, 1947, to June, 1948, stocks enjoyed a very satisfactory advance, led principally by the oils, chemicals, electrical equipments and generally by investment type stocks. However, that initial market advance, though long extended and relatively sober, was all but completely cancelled over the June, 1948-June, 1949, year, as fears arose throughout the country that the postwar pipelines were being filled rapidly and that unemployment might mount to 10,000,000 or more. In the spring of 1949 the government, before that the Federal Reserve, took steps working for recovery, and by late summer of 1949 the Federal Reserve Board's Index of Production was rolling forward once more.

Since June, 1949, the stock market and business marched forward together except that in recent months the market advanced sharply to leave business far behind. Not satisfied with that achievement, the market in recent weeks has frequently displayed speculative excesses, usually among the metals, steels, oils or rails, electrifying those groups, usually one at a time, frequently one stock at a time, into spurts of extraordinary activity not seen since the market peaks of 1929, 1937 and 1946. Thus trading volume over the past month, or more, has been the greatest since 1929!

The general tenor of the market has been indicating that nearly everyone has scrambled aboard the inflation band wagon in this period of market strength, instead of building up financial reserves with each market advance. Accordingly, this contribution to the "Commercial and Financial Chronicle" is entitled "Don't Miss the Caboose" for the fast freight-train of speculative excesses is passing and investors and speculators are counseled not to miss the last car, for the break which the current market enthusiasm is preparing will cancel all the excesses developed since July in this bull market craze for protection against inflation, and possibly much more of the total advance since June, 1949. Thus it will be as critical for one's personal finances to miss the caboose in the current strong, active market as it was to miss the opportunity to liquidate in the periods of rampant speculation of February-March, 1937, September-October, 1939, and April-May, 1946.

Recently I made the following observation with respect to the market: "Believing that stock and commodity markets are dangerously high and overdue for a severe reaction, possibly the beginning of a bear market, due to a reversal in corporate earnings, due in turn to sharply higher commodity prices and taxes, and high labor costs; plus government confusion and explosive international situation which could develop into one or more Pearl Harbors, I think it wise for small investors to sell out and put their money in savings banks and U. S. Savings Bonds, and that large investors should secure substantial cash reserves (50% or more), holding such reserves until the day of reckoning which will come."

In approaching the question of the soundness of the current boom in stocks, it appears advisable to consider the problem from at least three angles: (1) the psychological and technical position of the market; (2) political considerations; and (3) economic and financial considerations.

Technical Position and Psychological Position

Technically, the market appears to be just about opposite to the summers of 1947 and 1949. As the latter markets suggested purchasing heavily, so the present market suggests selling heavily. Successful investors and traders must not await a downtrend in business or in profits before selling. They do not even wait for the first sharp break and the subsequent rally which fails to make a new high (the favorite spot for "short" selling operators to take their positions for a substantial, sharp market decline), for that subsequent "failing" rally may not come in this unorthodox market. Those experienced in observing excessive speculative enthusiasm at the tops of previous bull markets cannot fail to note a strong similarity in recent market gyrations. The character of the activity, the timing of sudden upward thrusts in key stocks, the total volume of transactions, the broadness of markets, and the monopolization of general conversation by market topics, all strongly suggest to the conservative investor that he should sell at the market and remove the proceeds from the temptations of the Rialto.

The market now is big enough and broad enough to absorb almost any kind of liquidation, except wholesale public stop-loss orders; and, at a price level the best since June, 1930. Many alert market operators and large investors who study fundamental financial and economic figures closely will not miss this unusual opportunity to liquidate large amounts of stock, an opportunity that comes only once in several years.

The Truman Bull Market has been running 19 months, mostly in a steady rise. The oils have been in a bull market since February, 1942, with a good correction after June, 1948. They are still being purchased actively and avidly at three to ten times the prices registered in the early Forties. Since mid-1949, the rails have more than doubled their average and numerous railroad stocks have risen 200% to 300% or more—an advance, note well, for the stocks of an industry which is being hit harder each year by most aggressive and financially successful competition; an industry log-tied by antiquated regulatory laws, usually over-capitalized where not recently reorganized, featherbedded down by the tightest of labor regulations, and taxed nearly to the death by municipalities, counties, states and, to a lesser extent, the Federal Government. These have been bought by an avid public in enormous volumes, daily and weekly, as inflation and tax hedges; mind you, an industry whose costs are rising tremendously as the result of the commodity price boom and higher and higher labor costs. A future decline will deflate railroad equity values even more than the May, 1946-May, 1947, or June, 1948-June, 1949, bear markets.

With the exception of a very few groups, currently in disfavor because of lower earnings or recognized uncertain prospects, nearly all the groups on the N. Y. Stock Exchange have had a generous advance, mark-up, or at least a "good whirl," in the parlance of the Street, and the Rails, Oils, Metals and Steels have had a boom rivaling those of the Movies, Liquors, Department Stores and Airlines in January, 1946, when these securities made their tops for the post-war bull markets and signaled the whole market collapse a few months later.

By the end of 1950, millions of shares had been accumulated by bargain hunters and their followers at relatively low prices, mostly between May, 1947, and June, 1949. Additional millions of shares were purchased by Street customers as the markets advanced and gave encouragement to increased commitments. These stocks, even those bought after the Korean setback in July, 1950, all are six-months-old holdings, the profits of which are taxable at the maximum rate of 25% of profits under present laws and can come on the market almost at any time. Thus, the market is very vulnerable to immense profit-taking and reserve-building opportunities.

As the mark-up in stocks proceeded recently, it was well advertised in newspapers, magazines and via radio, and the public

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The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
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Business Failures

Notwithstanding a modest increase in steel operations following the termination of the railroad strike, over-all industrial production tapered off slightly the past week. However, aggregate output continued appreciably above the level for the corresponding period a year ago. It was further noted that initial claims for unemployment insurance in the week ended Jan. 27 declined for the third straight week, dropping nearly 12%.

Electric kilowatt production last week showed a slight recession from its record level of the week before. Carloadings and auto output responded favorably to the resumption of normal scheduling of the nation's railroads and, in the case of automobile production, to the use of stockpiles of steel and other materials accumulated by producers during the strike, according to "Ward's Automotive Reports."

Production of more than 60,000 cars and trucks was lost because of the rail strike, this agency said, and had it not been for this interruption the one-millionth car or truck of the year would have been built last week.

According to an estimate of the Council of Economic Advisers, industrial production in January of this year was the highest since the end of World War II. It placed the production index for that month at 219% of the 1935-39 average, or three points above December, last, and 36 points higher than in January, 1950.

Total production of goods and services in the United States during the final quarter of 1950 attained a record annual rate of $300,000,000,000, the Council of Economic Advisers noted. This was a $16,000,000,000 gain over the pace in the preceding quarter.

Under a formula for modifying the present freeze, approved early on Friday of last week by a majority of the Wage Stabilization Board, millions of workers in scores of industries would be permitted to enjoy substantial pay increases if their employers were disposed to grant them. The plan would allow wage hikes up to 10% above the level of Jan. 15, 1950. The proposed limitation, however, proved so distasteful to labor leaders that they threatened drastic action. It was intimated that the current textile strike may spread to other industries, including meat packing. The United Labor Policy Committee, representing the CIO, AFL and independent unions, ordered the Wage Board's three labor members to resign. The new wage formula will not go into effect until approved by Economic Stabilizer Johnston and, it is expected, he will confer with President Truman before acting.

The squeeze on civilian steel supplies is tightening steadily, hastening the day of widespread metalworking plant curtailments, says "Steel," the magazine of metalworking, this week. Defense allocations are mounting. Mill tonnage set-asides for military orders are substantially upped on both carbon and alloy products starting with the April rolling cycle. Meanwhile, cutbacks up to 40% in use of steel in civilian items, including automobiles, are under consideration for the second quarter. This spells serious economic dislocation and unemployment, unless, by some magic, defense work spreads out quickly through industry to take up the threatened slack.

Moderately heavier steel tonnage is earmarked for directed programs in April, says the magazine. A larger grab for defense and other emergency needs is indicated for May. By that time expanding DO-rated orders will be supplemented by additional directives, leaving the non-rated consumer in tightest supply position since outbreak of the Korean War last June. New allocation programs in May likely will include ship construction, ship repairs, oil field equipment, and locomotives. These programs, along with existing delegations for domestic and Canadian freight cars, and lake ore carriers, were considered at last week's meeting of the NPA Steel Task Committee.

Speeding up of defense activities necessitated the new increase in the mandatory tonnage load on mills for military account. National Production Authority raised mill set-asides on various carbon and alloy products for DO-rated requirements just before expiration of the lead-time for April scheduling. As a result, civilian supplies of numerous carbon and alloy products will be cut further immediately to the extent of the percentage mark-up in the set-asides.

Whether iron and steel prices are in a deep freeze remains to be seen, "Steel" states. Some trade authorities think necessary adjustments will be permitted from time to time as economic developments dictate. Current schedules are stabilized at levels prevailing in the closing weeks of January with the exception of scrap on which ceilings were fixed Feb. 7 effecting a roll-back to levels prevailing around the first of the year.

Contrary to the usual seasonal trend, the volume of building permits for January rose slightly above the December level, according to the latest summary by Dun & Bradstreet, Inc. Permits issued in 215 cities in the initial month of 1951 aggregated $446,881,401, an increase of 4.8% above the December total of $426,607,027, and a rise of 33.4% over the corresponding 1950 month with permits totaling $334,999,161. Last month's permit turnover eclipsed that of any other January on record.

Steel Output Makes Further Gains Following End of Rail Strike

Never was the pain of an economy shifting from peace to war goods more evident than it is this week, according to "The Iron Age," national metalworking weekly. Hardest hit, as usual, are the small metal fabricators. They are being starved by material cutbacks. Many of these small fabricators will eventually get defense contracts or subcontracts—if they can hold out that long. Meanwhile they are in a tough spot and they are making their plight heard.

This economic dislocation largely results from the time lag in

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Observations . . .

By A. WILFRED MAY

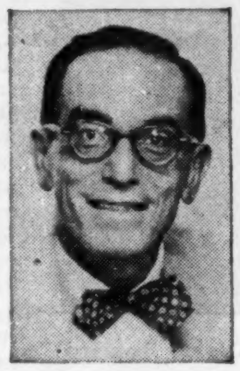
Of Forecasting, Cows and Champagne

We publish the following letter because it succinctly raises two important questions relevant to the value approach as advocated by this column.

"Wilfred May tickles me. He says that there is nothing to forecasting and then winds up forecasting the outlook for individual companies.

"To me it is very much like betting which way a cow will turn instead of guessing in what direction the whole bunch will go. I will still go for the old fashioned ideas of trying to guess the direction of the herd, bunches within the herd, and then spread my bets on the vagaries of several individuals.


B. Barret Griffith


A. Wilfred May

"I never have figured out whether psychology begot statistics or statistics psychology.

"I tied with Mr. May as winner of Arthur Wiesenberger's guessing contest [Arthur Wiesenberger & Co.'s "Guessing Derby"—a competition between financial editors' and advisers' predictions of the ensuing year's course of the Dow Jones Industrial Average] in 1946. Mr. May is a good guesser and really shouldn't leave the game, because I feel certain that he is still winning.

B. BARRETT GRIFFITH"

B. Barret Griffith & Co., Inc.,
Investment Counsel,
Colorado Springs, Col.

* * *

Mr. Griffith charges me with inconsistency in first decrying forecasting, while myself forecasting the outlook for individual companies. This is a basic and interesting point.

He is, of course, correct if he means that **some** amount of forecasting enters into our value-appraising of individual issues. But the point is that here the forecasting elements are minimized to the fullest possible extent, while the quantitative factors are relied on to the utmost. In estimating the investment value of a stock on the premise that it is the present worth of future returns on it, there are admittedly some imponderables involved in the calculation of future earnings. But, in its context of careful conclusions based on recorded past earnings and with such other quantitative data as balance sheet figures evidencing the degree of financial strength supporting future earnings, the forecasting component constitutes an unavoidable and legitimate business risk. The forecasting function here is analogous to that present in the appraisal of a privately held business, or of a piece of real estate.

Forecasting Preponderant in Market Timing

On the other hand, in trying to time movements of the stock market as a whole, forecasting is a **primary** function. Furthermore, there is practically no margin for error. But the buyer of a stock below its real investment value will never lose if his appraisal is correct, because he will in time gain his income-plus-increment based on his cost price. Furthermore, the value-analyst can protect himself additionally by subtracting from his calculated value-appraisal figure a *margin of safety*—adjusted to his tax bracket and his over-all portfolio status. The forecasting elements in this setting certainly are far different from those involved in predicting the direction and timing of the market's short-term movements.

The following typical terminology excerpted from Mr. Griffith's communication seems highly significant in this connection: *"guessing," "spread my bets," "the game," "winning."*

Statistics First—Psychology a Close Second

For the successful investor, the statistics must do the begetting of the psychology; not the other way around. Recognition of psychological aberrations of the market place can be very useful; but by way of supporting conclusions after they have been first arrived at from the quantitative data.

Of course it would be more convenient, as well as profitable, to "guess the direction of the herd" and spread one's bets on the individual cows. Unfortunately, however, there is no uniformly-moving "herd" that is inclusive enough. As we have tried to explain concretely before an over all *trend* is merely an appealing mirage.

That Guessing Contest "Champagne"

Success at the forecasting game is dangerous champagne. (This is also so literally in the instance referred to by our correspondent, since Mr. Wiesenberger's prize consisted of a case of it.) For example, many of our readers, writing in to protest against our skepticism about forecasting *systems,* usually buttress their argument with reports of their individual success. Let this observer, who entered the market-predicting contest as a joke, respectfully but earnestly urge other winners at such a game to regard themselves, as he does himself, as merely the lucky long-odds winner of a lottery—proving absolutely nothing!

Common Stocks as Inflation Hedge for Pension Funds

By PAUL I. WREN*
President, Old Colony Trust Company, Boston, Mass.

Noting increasing investment in common stocks for trust funds, prominent trust executive sees in common stocks both opportunities for higher income and as inflation hedge. Cites advantage of investment in growth companies, but warns investment is not exact science, and trustee must use judgment and discretion in selecting shares for pension and trust funds.

If the subject of investing pension funds was being considered at such a meeting as this more than three years ago, I am sure that the real question to be debated would have been the most desirable type of bond and preferred stock portfolio which should be used in a pension fund, with a few side remarks about common stocks. Since that time, at an accelerating pace, common stocks have become respectable investments in many surroundings where previously they had been looked upon as skeptically as the new daughter-in-law of a Proper Bostonian who was still a member of the chorus in a local threatre. During the last eight years, about three States at each of the biennial sessions have adopted the Prudent Man Rule for Trust Investment, and in 1950 the move was highlighted by the legislation passed in New York allowing a trustee to be at least 35% prudent. In other words, common stocks are now being accepted in the best society.


Paul I. Wren

Rather than assume that because of this trend, they should be purchased widely by pension funds in order to keep up with the Joneses, I should like to examine some of the fundamental reasons why my institution has for many years purchased and held common stocks in trust accounts and has applied this same investment philosophy to pension trusts. This review will be based on the long-term implications rather than prove, as some of you may hope, that prices of equities at the moment are unusually attractive.

As I look around the room I can see many who are experts on all phases of pension trusts, but there may be others who are, as I was and still am, somewhat bewildered as to the exact implication of the word pension trust. Also, each new wave of negotiations for fringe benefits seems to give birth to new terminology. Without in any way exhausting the subject, I should like to comment on a few types of these funds so as to bring into sharper focus the nature of account which will be under consideration for the balance of this talk. Among the various pension funds under your investment supervision, there may be an account which was set up to pay a definite pension to a small group of employees who have all retired. Here the fund, if actuarily sound, will dwindle and waste away over the years and in my opinion should not hold common stocks. One of the newer wrinkles has been the so-called terminal funding plan whereby the corporation does not put up any money until the employee retires and then sufficient funds are set aside to assure the retiring person a fixed sum per month for the rest of his or her life. Only the actuary can give the answer to the question as to whether the funds in the hand of the trustee will be at a more or less even amount for a period of years or will waste like the one mentioned above. Because of this uncertainty, I am leaving aside a discussion of the investment of a terminal funding trust.

The most common type of pension trust under our supervision is the one established for the purpose of accumulating a fund to cover the pension liability of the company to its employees for benefits earned prior to the start of the plan (i.e., past service) and earned after the date of the plan (i.e., current service). The sum determined for past service can be paid in by the company over a period of time—sometimes as long as 30 years. Such a trust accumulates money during the first few years of its existence since the annual contribution of the employer exceeds the distributions to the pensioners. After a period of years, frequently 15 to 20, the principal value of the fund is not expected to change appreciably since the payments to the retired employees approximate the annual contribution of the company and the earnings of the fund. In other words, the investment supervisor has a trust account of more or less perpetual term (or at least until he joins the pensioners under his bank's plan) with additions to principal being made during the first few years. Let us consider some of the factors in purchasing common stocks for such an account.

In Massachusetts, the philosophy of investments by trustees is derived from the famous Harvard College vs. Amory case decided in 1830 by the Supreme Judicial Court of the Commonwealth. At that time, Justice Putnam reviewed the possible avenues for investment of trust funds and remarked, "Do what you will, the capital is at hazard." The pertinence of this phrase has increased, if anything, in the past 120 years. Our predecessors in the management of investments, if Mr. Amory's account is any criterion, certainly liked common stocks since the $50,000 fund was invested in a bank stock, an insurance company stock, and two industrial stocks. Recent generations of trustees have diversified their accounts to a greater extent and also have used more bonds.

A cornerstone of our investment attitude, therefore, is the premise, "Do what you will, the capital is at hazard." Over the years, the Massachusetts trustees have come to consider common stocks as one of the natural ingredients of a long-term investment program, the percentage varying with the outlook for business and security prices. From the beginning of the pension trusts, we looked upon them as normal trust accounts of long duration but with the unusually attractive feature of regular additions to principal during the early years. This arrangement puts cash in the hands of the trustee at various levels of the stock market, permitting the accumulation of stocks over a period of time, thus averaging the cost.

By now, you have probably heard enough of the tradition of buying common stocks in Massachusetts and are wondering if any other reasons are evident. One of the first which I should like to discuss is the matter of diversification. Those in our profession who have a crystal ball, still not cracked or scarred by unexpected developments of the past two and one-half years, may be able to pick out a handful of industries which will flourish during the next period in the business cycle, and therefore do not need to diversify their investments. However, for the rest of us some dis-

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*An address by Mr. Wren at the 32nd Mid-Winter Trust Conference, sponsored by the Trust Division of the American Bankers Association, New York City, February 6, 1951.

Fallacies of Price Control

By DON PAARLBERG*
Purdue University

Stating flexibility and not stability is key word in price economics, Purdue University economist expresses doubt dangers of inflation are sufficiently great to cause a scrapping of the price system and a return to price ceilings. Explains functions of price system and maintains price ceilings must be accompanied by rationing. Favors taxes and credit controls for lessening upward pressure on price level.

The country appears convinced that the number one economic problem is to stabilize prices and prevent inflation. This thought has become so thoroughly ingrained in our thinking that many have ceased to question it. It is a part of our economic doctrine.

Dr. Paarlberg

In the early days of the Church, a complete code of religious doctrine was handed down to the laymen. There were some unbelievers, who were called to account for their heresy. These unbelievers were permitted to have a spokesman to defend them. Since this spokesman was supposed to represent the powers of evil, he acquired the highly descriptive title, "The Devil's Advocate."

Similarly, today, the fear of inflation and an enthusiasm for price control has become a part of our economic doctrine. There are a certain few who do not subscribe to this doctrine; I am among them. I should like to undertake to be the Devil's Advocate in defense of my own heresy and that of others.

Flexibility Needed, Not Stability

First of all, in my judgment the number one problem is not that of controlling inflation but of maximum production for the rearmament effort. If we lose out to the enemies of freedom, it will not be because the price index showed a rise of a few points; it will be because we failed to produce the planes and ships and tanks and food that were needed. The number one problem is to swerve the economy from a peacetime to a military footing; this can't be done with frozen prices any more than I can keep my car on the road with a locked steering wheel. The key word is not stability, it is flexibility.

Inflation Is a Symptom

Let us look at the chief charge leveled against inflation—that it reduces buying power of the people and forces them to accept a lower level of living. It is certainly true that if we devote 20% of our energy to the destructive efforts of war, we will have fewer useful goods and services to enjoy. We shall have to take a reduction in the level of living; the people have not generally been told this but it is inescapably true. There is no way that we can shift the real burden of this rearmament effort to another generation; the real costs, in terms of fewer goods and services, must be borne currently. How is this reduction in the level of living to be brought about? There are only three ways to do it.

One way is to take the money away from the people, either by taxing them or requiring them to buy bonds.

Another way is to ration them and thereby limit the amount of goods they can buy.

Another way is to let prices rise, thereby pricing consumers out of the market. These price rises may need to be supplemented by restrictions on the production of certain consumer goods which are not essential to the war effort.

All three methods will achieve the purpose which is absolutely essential in a time like the present—reduce the level of living of the people and thereby transfer men and supplies from civilian uses to the rearmament program. The only question is whether this is to be done by a high level of taxation, by an arbitrary rationer in Washington or by the impersonal operations of a freely fluctuating price system, or by some combination thereof.

The real culprit responsible for the reduced level of living is the war effort; inflation is merely a symptom. The price system is to the economic body about what the thermometer is to the human body. The human body consists of various organs, the heart, the lungs, the liver and the stomach. If something happens to one or the other of these organs, the temperature rises and is recorded on the thermometer. Similarly, the economic body consists of many parts—labor, agriculture, industry—each with its own supplies and demands. If something happens to the supplies of or demands for these commodities, the change is registered in the price.

The doctor could set the thermometer at 98.6 and think that therefore he had cured the patient. Similarly, we can freeze prices as of a certain date and think that we have cured whatever ailed us. A fixed thermometer is a handicap to a doctor who is puzzled about how to diagnose and prescribe; a fixed price is a handicap to an economy which is trying to find out what to produce and consume.

Inflation is not a sickness, it is a symptom of a sickness, the disturbance to supply and demand brought about by the war effort. To some extent inflation is even a partial cure for that sickness, since it brings about necessary reductions in consumption and increases in production. Doctors have found that fever in the human body is partly a symptom of an ailment, and partly also a cure for that ailment. If a malaria patient is running a fever no good doctor would put him into a deep freeze to bring down the fever. Neither should we try to put a freeze on prices to cure whatever ails us.

Inflation is a good scapegoat; attributing our difficulties to inflation is a good way to draw attention away from the real cause of prospective reductions in the level of living—the war effort. But let us not be so naive as to think that if we halt inflation we will be able to avert the reduction in the level of living brought about by war.

Inflation and Production

It is sometimes thought that a rising price level cripples the productive plant of a nation and therefore would hamper the rearmament program. On the contrary, a rising price level is a powerful stimulus to increased production. When prices rise enterprise is encouraged. Debts are easy to pay. Inventory values rise, modernization goes forward. Business ventures pay out. The tremendous production of World War II was accomplished while the price level was doubling. In time of war, the price system has always invoked a certain amount of inflation as a stimulus to production and a deterrent to consumption.

Is Inflation Followed by Deflation?

Another charge against inflation is that a price rise must inevitably be followed by a price decline; the rise may be pleasant, but the collapse is painful. The notion is based on the idea that there is a sort of normal for the price level and that prices somehow have to fluctuate around that normal. This we have believed for a long time; it is implicit in the concept of "normal agricultural value" for farm appraisal, based on the period 1910-14. "What goes up must come down," we say, much satisfied with our wisdom.

But a study of history shows that there is no normal for the price level, that what goes up may stay up. After World War I, Spain's prices leveled off at several times prewar, and stayed there. After World War II, prices in the United States leveled off at about two times prewar and I personally doubt if they'll ever come back to the 1939 level. This is a difficult idea to get, but it is extremely important. The long-time average for the hog-corn ratio is about 13. If the ratio goes up to 18, there is good reason to think it will come back down. But there is no long-time equilibrium for the price level; what goes up need not necessarily come down, but may stay up.

As a matter of fact, there is the great likelihood that if we succeed for a time through price controls

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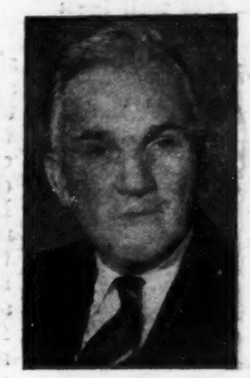
*Part of an address by Prof. Paarlberg at Annual Meeting of the Illinois Society of Farm Managers and Rural Appraisers, Urbana, Ill., Feb. 9, 1951.

From Washington Ahead of the News

By CARLISLE BARGERON

There has been a noticeable lessening of war tension in Washington in the past two weeks. This does not mean that there is any less confusion or that the movement towards wrecking the American economy has abated in the slightest. The bureaus and alphabetical agencies are frantically being thrown together; Mr. X who has just been appointed director of manpower, of materials, of prices, of allocations or whatnot, leaves his desk to go to the water cooler and returns to find another official has swiped it. Faced with a press conference in 30 minutes, he announces on his feet that while he hasn't yet been able to get a staff, he is prepared to announce price ceilings on wages and commodities and inasmuch as he must pull a figure out of the hat, he makes the ceiling 10% higher than the present level. He has thus shown activity and no one can say he came to Washington in time of crisis and dawdled.



Carlisle Bargeron

But now that the wheels of chaos are turning and apparently there can be no turning back, it isn't necessary to agitate about "all-out" war in the spring. Once again tanks and planes and the like are rolling off the assembly lines; that having gotten started, the imminency of war is not so necessary. We can just go ahead "expanding our economy," as the expression so wittingly goes, and not have to have any more imminent war excitement until this "expanding economy" seems to be slowing down, or the people seem to be becoming apathetic or unafraid again.

Both the Pentagon and the State Department seem to have convinced the horde of Washington newspapermen that the war in Korea is going along just as had always been planned. It seems there was a tremendous misunderstanding as regards the goal out there at first, something about running the Commies out and setting up a democracy at a cost which would be covered under Point IV of our Global leadership. Naturally the Washington newspapermen and our people became generally alarmed when it developed this was not being accomplished. The resulting excitement caused a general outcry to bring the boys home, get them out of Korea and let Europe be hanged.

Well, all the apprehensions and excitement were unjustified; apparently the State Department and the Pentagon had not made themselves clear. The plan is now, has been all the time, simply to engage the aggressor and convince him that aggression is expensive. It might be added, of course, that it is also expensive to convince the aggressor of this.

The new style of communique from the front, now that the newspapermen are not permitted to report on everything they hear and see, does not tell of an offensive on the part of what are affectionately called the United Nations' forces, to capture a particular city or town; it is for the purpose simply of killing Communists; we do not have anything such as retreats any more.

Switching over to the European front to create what are called "situations of strength," the Administration intends to go right ahead with the sending of four more divisions to Europe, and the opposition Senators having agreed they did not mind sending some additional troops over there, cannot very effectively quibble over this number, so it begins to look as though there will be little to argue about around here; argument won't get in the way of the confusion, it will be permitted to develop unimpeded.

For those who want to worry about such things and it seems a shame to be worrying when everything appears to be running along so smoothly, the question might arise as to what is going to happen when the "situation of strength" is definitely created.

The situation, not the "situation of strength," but just the situation existing in Germany and Austria now is that the Russians are there by agreement with us, there for the same reason, ostensibly anyway, as we are there. This ostensible reason is to police those countries, until a peace treaty is signed and their governments returned to them. This is the reason we are occupying Japan. Up until recently it had been assumed this occupation job was all our troops in Germany and Austria were supposed to do. However, they have come to serve another purpose.

When we got around to developing a "situation of strength" by sending more troops to Europe and the oppositionists let up a howl, one of the most effective arguments against them, one of the most embarrassing, was that they were willing to make expendables of our troops already there. We've got to send more troops to support them, the argument ran, and even such a hardy oppositionist as Senator Taft was not willing to challenge this.

Now, when German and Austrian peace treaties are signed, all Russian and Allied troops are withdrawn. As I understand it, the Russians have long since manifested a willingness to get to work on these treaties, but our government is afraid, as I understand it, that the Russians having signed the treaties and all of us having withdrawn their troops, they will have so strengthened East Germany that it will be relatively easy to take over all of Germany. I am not saying this would not be the case, either, but can't our leaders get us into the worst mess?

So when we get our "situation of strength," aren't we going to say to the Russians, "Now get on back to your own border and don't be slow about it."

This is what the Russians, of course, call aggression on our part and inasmuch as our purpose is to move them from where they are, what else would they call it?

Bank Lending in Defense Economy

By ROY L. REIERSON*
Vice-President, Bankers Trust Company, New York

Bank economist, warning "we should take a critical view of proposals that might interfere with functioning of the banking system," reviews recent expansion of bank loans, and concludes, because of comprehensive economic controls and shifting to defense production, there is prospect of restrained bank lending even in absence of stringent curbs. Sees loan expansion as easy problem, and denies it is cause of inflation.

Events of recent months have again brought to the fore fundamental problems in the field of commercial banking. The monetary authorities and responsible bankers alike have become concerned over the recent spectacular increase in bank loans. The fact that loans were expanding so rapidly at the very time when commodity prices were rising sharply has raised the question whether the growth of bank credit may be contributing to an inflationary rise in prices.

Roy L. Reierson

At the same time, new questions have arisen in the field of credit policy. It has been made abundantly clear that the orthodox use of interest rates as instruments of credit policy will be limited to an even greater degree than in the recent years of postwar inflation, by the desires of the fiscal authorities. It is certain that this will stimulate the search for new devices of credit control designed to restrict private credit without entailing a rise in the market yields on government obligations.

In this complex situation it is admittedly difficult to maintain perspective and to arrive at a point of view which recognizes the necessity of keeping the channels to bank credit open while yet insuring that banks and bankers make their maximum contribution to coping with our inflationary ills. Many of the answers must be tentative. Nevertheless we cannot avoid the responsibility for having an opinion on some of the fundamental issues confronting the banking business.

In considering these problems, the outlook for bank loans occupies a central place. If the prospects are that bank loans will continue to rise rapidly and if this expansion is likely to add significantly to inflationary pressures and price increases, the case for more stringent credit controls may be strengthened. If, however, the prospects appear otherwise, we should take a critical view of proposals that might seriously interfere with the functioning of the banking system in our economy.

Recent Expansion in Bank Loans

The commercial banking system in the last half of 1950 recorded the biggest loan expansion in history. This followed a decade during which bank loans were in a general upward trend. This persistent growth reflected the generally high levels of business activity and prices prevailing throughout this period of war and postwar inflation.

With the outbreak of war in Korea, the volume of bank loans rose very sharply. The most striking expansion occurred in commercial and industrial loans—a 30% increase during a six-month period. This is the most rapid rise ever experienced in business loans during a comparable period of time. Total bank loans are at an all-time peak. The record of outstanding loans of insured commercial banks during 1950 is given in the accompanying table.

Loans of Insured Commercial Banks
(In billions)

Type of Loan—	Amount: Dec 31, 1949	Amount: Jun 30, 1950	Amount: *Dec 31, 1950	Change 1950: 1st Half	Change 1950: *2nd Half	Change 1950: *Year
Commercial and Industrials	$16.9	$16.8	$22.1	$—0.1	$ 5.3	$ 5.2
Agricultural	3.0	2.8	2.7	—0.2	—0.1	—0.3
On Securities	2.6	2.8	2.6	0.2	0.2	--
Real Estate	11.4	12.3	13.6	0.9	1.3	2.2
Consumer	8.0	9.0	10.4	1.0	1.4	2.4
All Other	1.1	1.2	1.3	0.1	0.1	0.2
Total	$43.0	$44.9	$52.7	$1.9	$7.8	$9.7

* Estimated.

Bank loans customarily increase in the latter half of the year due to the marketing of crops, stocking up for fall and Christmas business, the seasonal rise in consumer buying, and the completion of residential building. The loan expansion in the last half of 1950, however, was more than seasonal. In large measure, it reflected the outbreak of war and the resulting sharp rise in many commodity prices and in consumer and business spending. High prices meant larger commodity loans. In addition, perhaps as much as 15% of the rise in business loans was due to the action by the Commodity Credit Corporation in disposing of commodities acquired in earlier years under price support programs. This resulted in an abnormal increase in commodity loans.

Business inventories rose sharply in the closing months of 1950, not only because raw materials prices spurted, but also because the level of industrial production increased by about 10% during the last half of the year. In the case of durable goods likely to be in short supply during 1951, many producers kept production at high levels even if this required some borrowing for inventory purposes. Incidentally, these inventories may be a useful damper on prices in the future. Residential construction and production of consumer durable goods were at all-time peak levels which could not be sustained for long in any event but which did add to consumer and real estate loans.

Thus, in the case of commodity, real estate, consumer and some business loans, the combination of circumstances that contributed to the unusually rapid increase in loans last year was unique.

Outlook for Bank Loans

It is obviously difficult to be categorical concerning the outlook for bank loans. Should the inflationary potential in the economy be allowed to express itself unchecked, bank loans would unquestionably continue to increase as they have in other periods of rising prices and full employment, although possibly not at the rate of recent months. But the economy is being subjected to comprehensive economic controls. These, together with the shift from civilian to defense production, may be expected to restrain the growth of bank lending even in the absence of stringent curbs on credit expansion.

Outlook for Consumer Credit and Real Estate Loans—We may dismiss consumer and real estate loans fairly easily from our discussion; they are not likely to be a problem. There is little doubt that both real estate loans and consumer credit are near their peaks. As the requirements of the military program expand, supplies of raw materials available for civilian durable goods and residential building are certain to be cut rather sharply. Our entrance into the war brought a nearly complete halt in the production of durable goods for the civilian market, and consumer credit declined almost immediately.

So far production cuts in prospect are by no means this drastic and consumer credit may be expected to hold up somewhat better than it did in 1942 and thereafter. Real estate loans did not show much of a decline during World War II, partly because of the high turnover of real estate even during the war years. No sharp contraction in the volume of real estate loans is anticipated in the near future.

Selective credit controls will also help to curtail the volume of new lending. If a more restrictive policy becomes necessary for consumer and real estate loans, or for loans on listed securities as well, it can be achieved most easily and effectively through the use of Regulations T, U, W and X. It is worth noting that these three types of loans comprise almost one-half of the total loans outstanding in the commercial banking system.

Expanding Defense Program and Business Loans—The outlook for bank loans to business is much more uncertain. These loans are essential to the efficient operation of business enterprise, and they comprise over 40% of total bank loans. However, since they reflect changing economic conditions and are not amenable to easy or effective control through the use of selective credit measures, their movements are often volatile.

During the past decade there were three periods during which business loans expanded rapidly and substantially. The first of these, was the rearmament boom from 1939 to 1941. The second period of rapid loan expansion was the great postwar boom of 1946-1948. The third big rise in bank loans occurred in the war-scare inflation of the second half of 1950. All three periods were characterized by expanding industrial production, rising prices, and growth in business inventories.

If we face a persistent rise in prices and business inventories, demands for business loans will undoubtedly continue to grow. However, the expanding defense program may significantly moderate an increase in total business requirements for bank credit. This conclusion is suggested by our experience in World War II.

Business loans reached their peak in World War II shortly after we entered the conflict. Once we shifted to war production in earnest in 1942, business loans declined. Not until the postwar period did business loans pass the peaks established at the end of 1941.

One of the major factors that limited demands for bank credit in World War II was the imposition of comprehensive direct economic controls. We have now started along the same path and we face controls over prices, wage rates, business inventories, materials, plant programs, building and construction, and other aspects of business operations. It is difficult to say how effective these direct controls will be in this semi-war economy. Their success will require a high degree of cooperation and support from consumers, businessmen, labor leaders and farmers, and it is not clear that such support will be forthcoming. Nevertheless, if accompanied by realistic and effective action in the field of fiscal policy, the direct controls will certainly slow down the advance in wages and prices.

Also, these controls will help divert more production into military channels, restrain the competitive bidding for scarce materials which would otherwise drive some raw materials prices to much higher levels, and control inventory hoarding. They will limit the amount of private building and construction and probably curtail plant construction in nonessential industries. Thus, even though direct controls will by no means be fully effective cures for our inflationary ills, they will serve to restrain business demands for fixed and working capital, and hence for bank loans.

Another factor that reduced the demand for bank credit in World War II was the cutback in civilian production in 1942, which was made necessary by rising military requirements. This meant cor-

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*An address by Mr. Reierson before the Vermont Bankers Association, Burlington, Vt., Feb. 8, 1951.

What Price Defense?

By MAX WINKLER*

Consultant on International Affairs, National Securities and Research Corp.

Dr. Winkler cites statistics to show great proportion of defense burden being borne by the United States, and quotes warning against increasing armaments by Russian Foreign Minister at turn of century.

Sixteen so-called Western nations, led by the United States, are planning to spend an aggregate of about $34½ billion a year, with more to come, for national defense. Military expenditures by the United States alone are expected to amount to about $70 billion or almost five times as much as that contemplated by the other 15 nations.

Dr. Max Winkler

Compared with America's budget, the defense program (including *inter alia*, foreign aid and related activities) is in excess of the country's budgetary revenues and almost one-third the national income.

The subjoined table should prove illuminating:

Country—	—Defense Expenditure— In % of Budget	In % of National Income
Belgium	16.2	34.0
Canada	52.0	7.0
Denmark	28.0	9.4
France	34.0	13.0
Iceland	.002	.05
Ireland	6.0	1.3*
Italy	30.7	7.7
Luxembourg	10.1	29.0
Netherlands	23.8	14.3
Norway	18.0	40.0
Portugal	26.0	---
Spain	43.0	8.6
Sweden	20.0	25.6
Switzerland	37.8	8.2
United Kingdom	33.0	9.7
United States	100.0	31.4

*Income statistics for 1942 (latest available).

The above table is not only enlightening—it is terrifying, especially as far as the American taxpayer is concerned, because it is he who has apparently chosen to bear virtually all the burden. The situation is not new. What is, however, novel, is the fact that probably for the first time in history, one nation has seen fit to do it all. Conditions are best expressed by the following excerpts from a memorandum prepared some time ago:

The Drastic Impact

"The ever-increasing burdens strike at the root of public prosperity. The physical and intellectual forces of the people, labor and capital, are diverted for the greater part, from their natural application, and wasted unproductively. Hundreds of millions are spent in acquiring terrible engines of destruction, which are regarded today as the latest invention of science, but are destined tomorrow to be rendered obsolete by some new discovery. National culture, economic progress and the production of wealth are either paralyzed or developed in a wrong direction. Therefore, the more armaments of each power increase, the less they answer to the objects aimed at by the governments.

"Economic disturbances are caused in great measure by this system of excessive armaments, and the constant danger involved in this accumulation of war material, renders the armed peace of today a crushing burden more and more difficult for nations to bear. It consequently seems evident that if this situation be prolonged, it will inevitably result in the very disaster it is sought to avoid, and the thought of the horrors of which makes every humane mind shudder.

"It is the supreme duty, therefore, of all states to place some limit on these increasing armaments and find some means of averting the calamities which threaten the whole world."

Few will be able to identify the quotation, its author or the time it was written. It was back in May, 1899, when Count Michael Nicolayevitch Muravyev, Russian Minister of Foreign Affairs, addressed a memorandum to the diplomatic representatives of the various powers at St. Petersburg. It is from this document that the above has been excerpted.

*Abstract of an address by Dr. Winkler before the Erie-Niagara County Bankers Association, Buffalo, N. Y., Feb. 15, 1951.

Burns and Haney to Address Analysts

Dr. Arthur F. Burns and Dr. Lewis H. Haney will be the principal speakers at the dinner forum of the fourth annual con-

Dr. Arthur F. Burns Lewis H. Haney

vention of the National Federation of Financial Analysts Societies to be held Wednesday, March 7, 1951, at the Statler Hotel, New York City. Dr. Burns, Director of Research for the National Bureau of Economic Research and Professor of Economics at Columbia University, will speak on the subject, "The Struggle Against Totalitarianism." Dr. Haney, Professor of Economics at New York University and financial newspaper columnist, will speak on the subject, "The Outlook for Investments."

Adams Batcheller, Jr.

Adams Batcheller, Jr., partner in Dominick & Dominick, passed away at the age of 44 after a long illness.

COMING EVENTS

In Investment Field

March 9, 1951 (Toronto, Ont., Canada)

Toronto Bond Traders Association Eighteenth Annual Dinner at the King Edward Hotel.

March 14, 1951 (New York City)

Bond Club of New York Annual Dinner at the Starlight Roof, Waldorf-Astoria.

April 13, 1951 (New York City)

Security Traders Association of New York Annual Dinner at the Waldorf-Astoria Hotel.

May 30, 1951 (Dallas, Tex.)

Dallas Bond Club annual Memorial Day outing.

June 11-14, 1951 (Jasper Park, Canada)

Investment Dealers Association of Canada Convention at Jasper Park Lodge.

June 15, 1951 (Philadelphia, Pa.)

Investment Traders Association of Philadelphia Summer Outing and Dinner at the Manufacturers Golf and Country Club, Oreland, Pa.

June 22-24, 1951 (Minneapolis, Minn.)

Twin City Security Traders Association Annual Outing ("Operation Fishbite") at Gull Lake.

Sept. 30, 1951 (Coronado Beach, Calif.)

National Security Traders Association Convention opens at Coronado Hotel.

Oct. 12, 1951 (Dallas, Tex.)

Dallas Bond Club annual Columbus Day outing.

Nov. 25-30, 1951 (Hollywood Beach, Fla.)

Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Aluminum—Detailed brochure on the industry and the four North American Producers (Aluminium Limited Canada; Aluminum Company of America; Kaiser Aluminum & Chemical Corporation and Reynolds Metals Company)—First Boston Corporation, 100 Broadway, New York 5, N. Y.

Audio Devices, Inc.—Analysis—Peter Morgan & Co., 31 Nassau Street, New York 5, N. Y.

Chemical Process and Plant Engineering—Booklet—R. S. Aries & Associates, 400 Madison Avenue, New York 17, N. Y.

Common Stocks for Investment—Tabulation—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Dallas Insurance Companies—Comparative financial statements—Sanders & Newsom, Republic Bank Building, Dallas 1, Texas.

Dow Theory—Robert Rhea—$3.50—Rhea, Greiner & Co., 301 East Pikes Peak Avenue, Colorado Springs, Colo.

Electric Utility Industry—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Government Bond Portfolios—Breakdown—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Also available is a breakdown of **Sources of Gross Income.**

"Information Please!"—Brochure explaining about put-and-call options—Thomas, Haab & Botts, 50 Broadway, New York 4, New York.

Over-the-Counter Index—Booklet showing an up-to-date comparison between the 30 listed industrial stocks used in the Dow-Jones Averages and the 35 over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over an 11-year period—National Quotation Bureau, Inc., 46 Front Street, New York 4, New York.

Pulp, Paper and Board Industry—Volume IX of An Engineering Interpretation of the Economic and Financial Aspects of American Industry—George S. Armstrong & Co., Inc., 52 Wall Street, New York 5, N. Y.

Put and Call Options—Second edition—Put and Call Brokers and Dealers Association, Inc., 19 Rector Street, New York 6, N. Y.

Rail Rates—Their relationship to rail securities—Reprints of an address by Patrick B. McGinnis—McGinnis & Company, 61 Broadway, New York 6, N. Y.

Railroad Speculations—Analysis of **Chicago, Milwaukee, St. Paul & Pacific Railroad Co.** and **Chicago & Northwestern Railway Co.**—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

Sample Page of Charts—Leaflet showing six of over 1,001 stock charts with a description of a graphic service—F. W. Stephens, 15 William Street, New York 5, N. Y.

Stocks vs. Bonds—In current issue of "Market Pointers"—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

In the same issue is a discussion of **Construction Activity** in prospect, and data on **International Telephone and Telegraph** and the **Pittston Co.** Also available is a brief analysis of **Loew's Inc.**

Warrants—Discussed in different phases in "The Speculative Merits of Common Stock Warrants" by Sidney Fried, $2.00—Dept C, R. H. M. Associates, 220 Fifth Avenue, New York 1, N. Y. (or send for free descriptive folder).

* * *

Allis-Chalmers Manufacturing Co. — Analysis — Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, California.

Also available are analyses of **W. F. Hall Printing Company, Liquid Carbonic Corporation, Minnesota and Ontario Paper Company,** and **Pure Oil Company** and a memorandum on **Cincinnati Milling Machine Co.**

American Trust Co. — Memorandum — Elworthy & Co., 111 Sutter Street, San Francisco 4, Calif.

Atlantic City Electric Co.—Memorandum—Josephthal & Co., 120 Broadway, New York 5, N. Y.

Also available is a memorandum on **Delaware Power & Light.**

Bulolo Gold Dredging Ltd.—Memorandum—Batkin & Co., 30 Broad Street, New York 4, N. Y.

Also available is a memorandum on **Harrisburg Steel Corp.**

Canadian Western Lumber Company Limited—Analysis—L. S. Jackson & Company, Ltd., 132 St. James Street, West, Montreal, Que., Canada.

Cenco Corp.—Analysis—Clayton Securities Corp., 82 Devonshire Street, Boston 9, Mass.

Chicago Corp.—Memorandum—Hicks & Price, 231 South La Salle Street, Chicago 4, Ill.

Also available is a memorandum on **Lincoln Printing Co.**

Columbia Gas System—Annual report—The Columbia Gas System, Inc., 120 East 41st Street, New York 17, N. Y.

Connecticut Light & Power—Descriptive memorandum—Chas. W. Scranton & Co., 209 Church Street, New Haven 7, Conn.

Also available is descriptive material on **American Hardware, Connecticut Power, Landers, Frary & Clark, Hartford Electric Light** and **Veeder-Root.**

Continental Illinois National Bank & Trust Co.—Memoran-

Continued on page 46

Consumers' Expenditures And Inflation

By D. HARRY ANGNEY*
Manager Research and Statistics Department, Federal Reserve Bank of Boston

After warning annual rate of consumer expenditures has increased from third quarter of 1949 more rapidly than rate of individual income after taxes, Federal Reserve Bank economist lists following steps to check inflation: (1) rapid expansion of goods and services; (2) reduction of government non-defense expenditures; (3) put government expenditures on pay-as-you-go basis; (4) general and selective credit controls to restrict credit expansion; (5) some controls over production, sale and use of commodities and services; and (6) promotion and directing of individual savings. Warns, however, abnormal volume of savings may produce threat to future price level.

The primary economic task of the nation at present is to increase our strength and that of our allies until we can cope with all threatened dangers. But we have a secondary task that is just as important: we must maintain our economic strength, and that means our productive wealth and the value of the dollar. It is with particular reference to the value of the dollar that I want to speak today, because we cannot maintain our productive wealth or the economic structure of this nation by allowing the value of the dollar to depreciate further.

D. Harry Angney

Although many of the things I shall say may be well known to you, I think they should be said, nevertheless, because they are of such importance at this moment.

I think that we should stress first the fact that saving is an individual matter. Almost every one of us has been a saver or is a prospective saver. Some save toward the day when their income ceases and when they will have to live on their accumulated savings or income derived from it. Others save in order to accumulate sufficient funds to buy certain goods at a later date—for example your Christmas Club savers. Others save in order that they may be protected from unexpected but always threatening financial emergencies. Others save simply because they have no desire to consume the total amount of their current income.

Some individuals save what is "left over." They consume what they desire, or what they think they have to consume, and save the rest. For others, saving comes first. They set aside a predetermined portion of their current income and spend the rest. A large portion of all these categories of saving finds its way into savings accounts. Whatever the motive for saving, it is based upon a reasonable degree of confidence that money saved will be worth as much or more later on. Destroy that confidence and you destroy not only the individual's belief in his ability to provide for himself, but also the source of further economic progress, because savings provide capital for economic growth.

Importance of Saving.

Saving has always played an enormous role in the economic development of the United States; it is continuing to play the same role. Without saving there can be no capital accumulation, and without capital accumulation there can be no major economic progress of the sort that has made this nation the wealthiest in the world. Despite our current high levels of income and production, it is certain that in the normal course of events this country will continue to expand its output and increase its standard of living to a point that will dwarf all we know now—if we maintain a continuous flow of savings into productive investment.

Fluctuations in total personal saving have been great. Net saving in 1939 was $2.7 billion. By 1944 it had risen to $35.4 billion, almost one-fourth of total personal income after taxes. By 1947, net saving had dropped to $3.9 billion but it averaged more than $10 billion from 1948 through 1950. Scare buying because of impending shortages is one factor which produces short-term effects in the rate of saving. A far more important factor which can color the attitude toward saving of a whole generation is the prospective value of the dollar. If price levels are rising and give every indication that they will continue to rise savings are inevitably discouraged. A few individuals will continue their saving habits without thought. Many others nevertheless, will realize that a dollar saved now, even with interest, may provide less purchasing power some years hence. This attitude toward saving is particularly threatening to savings accounts and other similar forms of saving. Some people are even now shifting the form of their savings out of fixed interest types of investment into forms which they hope will participate in inflationary increases.

Stake of the Savings Banks

Since savings banks secure their funds largely from individuals and must determine their policies from what these individuals decide to do, the savings banks have a tremendous stake in preserving the integrity of the dollar. I shall point out later some of the ways in which we can work together to maintain that integrity and emerge from the uncertainties of these years with new confidence in the future and with unimpaired strength in our nation and in our people.

A brief review of recent economic developments will help to illustrate the critical nature of the problem before us. From 1949 through the third quarter of 1950, **the annual rate of consumer expenditures increased more rapidly than the rate of individual income after taxes. The rate of savings dropped sharply.** Along with this increase in consumer buying of goods and services, there was a similar but even greater increase in the rate of investment spending by business. These increases in spending were largely responsible for an increase of 9% in the average level of wholesale prices from 1949 to October 1950. Despite a temporary increase in the rate of personal saving during the fourth quarter of 1950, wholesale prices have risen another 6% as business buying has accelerated, bringing the total increase in wholesale prices to 15% above the 1949 level by January of this year. The prices of many basic commodities have risen even more. The rate of increase in consumers' prices has been somewhat slower, as is always true, but even here there has already been an increase of about 5% from the 1949 average to the middle of January 1951.

Prices continue to increase, and the danger is that the rate of increase will accelerate. The price level so far has been relatively unaffected by direct government purchases. The impact of direct defense expenditures has still hardly been felt seven months after the Korean invasion. When expenditure at an annual rate of $50 billion or more is added to current levels of civilian purchasing, it is easy to see the great danger of further rapid increases in prices.

If the citizens of this country collectively anticipate further depreciation of the dollar during coming years, it is almost certain to produce a major readjustment in their habits of spending and saving. Even if the proportion of income going into savings remains unchanged, which is unlikely, it will almost certainly divert a larger amount of those savings to equity securities and to goods and property which they expect will increase in value as the general price level rises.

Whether we have continued price increases depends upon how several forces work out. The first is the volume of national output. The amount left over after the government makes its claim is the total of goods and services available to private individuals and businesses. If the quantity of goods available to private buyers at current price levels is less than the quantity of money that private buyers want to spend, prices will rise. The attitudes of consumers toward spending versus saving are, therefore, of the utmost importance in determining the degree of future price inflation. If some people who normally save choose to spend instead, or to spend past savings, then they add fuel to the fire.

Courses of Action

The courses of action which we must take to check inflation successfully are quite clear. No one action alone will do the job but all together will do it. I believe that we must take appropriate steps in each of six principal directions.

First, we must expand our total national output of goods and services as rapidly as possible.

Second, our governments, and particularly our Federal Government, must reduce non-defense expenditures.

Third, we must put total government spending on a pay-as-we-go basis.

Fourth, we must make full use of general and selective credit controls and voluntary cooperative action in restricting the extension of credit.

Fifth, we must make skillful but as sparing use as possible of direct controls over the production, sale, and use of commodities and services.

And **sixth,** we must promote savings and direct them into the right channels. I want to say a little about each of these topics.

The need for expanded total output, my first point, is apparent. Greater production makes it easier to meet governmental needs for the defense effort, of course, but it also aids in holding down the pressure on prices. Increased total production can make more goods available to private buyers and lessen the competitive scramble for goods. Where output is enlarged by an expansion of the labor force, however, the new production is accompanied by the creation of new personal income, much of which returns to the market to bid for scarce goods and services. Furthermore, expansion of output through working longer hours does not provide much net gain when it is paid for at overtime rates.

The most effective type of production increase, from the point of view of price inflation, is that which results from greater worker productivity. Where productivity increases, more goods are produced without an equivalent expansion in consumer purchasing power, and there is a restraining effect on the general price level. The average annual rate of increase in output per man-hour has been only 2% during the last 20 years, however, and during periods of expansion in the labor force even that rate may not be attained. Productivity increases and other methods of expanding production can help, therefore, but they must not be relied on too heavily in the battle against inflation.

It goes without saying that nonessential expenditures of the Federal, state, and local governments should be pared to the bone, my second point. Reductions in those expenditures would decrease governmental demands for goods and services and would leave correspondingly more output for defense and for civilian use.

Sound budgetary and fiscal policies of our government, the third point, can have considerable effect in suppressing price increases. The ideal approach to government financing during the coming years can be summed up briefly, "Pay as you go!" To maintain the strength of the country it is imperative that current requirements for military expenditures be met as completely as possible out of current income. This means, of course, increasing the level of total tax receipts to approximate the level of total expenditures. Income taxes, both for individuals and businesses, must be increased again. Further, it appears inevitable that excise taxes must be levied on an increasing list of commodities, and that many present excises should be increased.

Need for Credit Restrictions

Along with proper fiscal and budgetary policy, there is a continuing need for restrictions on the extension of credit, the fourth point. In the consumer field, these restrictions have already taken the form of Regulations W and X and the related regulations of the Federal Housing Administration and Veterans Administration. Their purpose is to limit consumer demand for durable

Continued on page 37

*Address by Mr. Angney at the Third Annual Savings Bank Conference, Boston, Feb. 9, 1951.

Mutual Funds

By ROBERT R. RICH

The Advantages of Profit-Sharing Trusts

One of the most valuable services which funds are performing these days for dealers is the exploration and analysis of benefits to be derived from mutual funds investments in rather out-of-the-way applications.

"The Management of Money," a regular service published by Distributors Group, is almost entirely devoted to helping dealers by supplying them with statistics and investment ideas which provide them with powerful sales arguments in the presentation of the mutual funds idea to large prospective accounts.

So much interest has been created in one recent issue of "Management of Money," and the topic illustrates so well the wide-open field for imaginative mutual funds selling, that we are quoting it here for the benefit of dealers who may not be receiving this service now.

"An executive who is also a substantial owner of the business asks by how much his benefits as a participant in a proposed Profit-Sharing Retirement Trust exceed his costs as a shareholder. Naturally, every case is different for there are a number of factors involved. Assuming (1) his percentage of ownership is the same as the percentage his salary represents of total payroll of participants, (2) his top personal tax bracket is 50%, (3) his retirement is 20 years away, (4) he will take his benefit at that time in a lump sum, and (5) if a Trust were not established the Company would declare the amount of the proposed contribution out as dividends and he would invest his share of such dividends—it works out roughly that at retirement he would have, net after taxes, more than three times as much as a result of the Trust than if it had not been created, even without the excess profits tax.

If No Profit-Sharing Trust Is Created

"Normal tax and surtax on top $1,000 of corporate income (25% normal tax plus 22% surtax)	$470.00
Available for distribution as dividends ($1,000 minus $450.00)	530.00
Individual income tax on dividend (50%)	265.00
Remainder to be invested at 3%	265.00
Income over period of 20 years ($265x3%x20 yrs.)	159.00
Individual income tax paid on such income	79.50
Income remaining after payment of income tax	79.50
Net to employee-stockholder after 20 years ($265.00 plus $79.50)	344.50

If Profit-Sharing Trust Is Created

"Tax on top $1,000 of corporate income paid into profit-sharing trust	$ 0.00
Increase on $1,000 if invested at 3% over 20 years	600.00
Total available for distribution after 20 years	1,600.00
Tax at time of distribution after 20 years (maximum 25% capital gains tax)	400.00
Net to employee-stockholder ($1,600 minus $400)	1,200.00

"Thus, without considering the compounding effect of income on income in either case, the individual comes out with $1,200 if a profit-sharing trust is created, as against $344.50 if such a trust is not created: a net gain of $855.50

"Considering the top rate (rather than the maximum over-all rate) of the new excess profits tax (77%) the result would be $149.50 if the trust is not created versus $1,200.00; or eight times more as a result of the trust.

"(Original example, herewith revised for new tax rates, from Prentice-Hall Pension and Profit Sharing Service, Sec. 3032.)"

Mutual Funds on Radio; New York, Pacific Coast to Rebroadcast Chic. Program

Of interest to the entire mutual fund industry and investors generally, is the forthcoming "Reviewing Stand" radio program sponsored by the Radio Department of Northwestern University, Illinois, over the WGN Mutual Network of stations, Sunday, Feb. 25, 1951, at 10:30 a.m., CST (11:30 a.m., EST). The subject is "THE SMALL INVESTOR: HIS PROBLEMS AND OPPORTUNITIES."

Mr. Louis H. Whitehead, Vice-President and member of the Policy Committee of National Securities & Research Corporation, N. Y., will be a member of the four-man panel which will discuss this topic, and his remarks will relate to mutual funds and the part they play in safeguarding funds of all investors, large and small.

More than 200 stations of the WGN Mutual Network join the hook-up regularly for the "Reviewing Stand" program, with the listening audience estimated at over 3,000,000 by Dr. Leighton Borin of Northwestern University, Program Director.

In addition to the above, this program will be rebroadcast for Pacific Coast listeners on the following Saturday, March 3, at 4:30 p.m. (PST) over the Don Lee Network. There will be a rebroadcast for New York Metropolitan area over WNYC, New York City, on Monday, March 5, at 6:00 p.m. (EST).

NET ASSETS of American Business Shares increased from $34,-734,060 on Nov. 30, 1950, to $37,-029,474 on Jan. 31, 1950. Net asset value per share jumped from $3.89 to $4.14 during the same period.

THE FIRST WOMAN wholesaler of mutual funds is Margaret E. Kennedy, who has established her own company, the Margaret Kennedy Co., 120 Broadway. She has been designated Eastern division distributor of Value Line Fund, Inc. and Selected Shares, Inc.

She resigned recently from Distributors Group, where her lectures to women on all phases of investment planning constituted such important "grass roots" spadework for the industry.

SALES TOTALING $4,432,536 made January the best month in the history of National Funds according to an announcement by Henry J. Simonson, Jr., President of National Securities & Research Corp. The total was up 39% from January, 1950. Net assets on Jan. 31 were more than $88,000,000.

THE NAME "NEW YORK STOCKS" will be changed to "Diversified Funds, Inc.," it was decided by shareholders at their annual meeting of Feb. 15. The new name was chosen as a more accurate description than the previous corporate title of the 15-year-old investment company.

Diversified Funds, Inc., has assets in excess of $38 million of which $24 million represents public holdings in its principal offerings—Diversified Investment Fund, Diversified Preferred Stock Fund and Diversified Common Stock Fund.

The new corporate title is effective Feb. 16, 1951. Shareholders will not be required to exchange existing stock certificates for new ones, although they may make such exchange without charge if they desire to.

Continued on page 33

Steel Nationalization in Britain

By PAUL EINZIG

Pointing out there is little doubt the British Labor Party's decision to proceed with steel nationalization is for political reasons in spite of changed situation, Dr. Einzig holds final outcome will be determined only after a new general election. Says Britain is handicapped in its rearmament by uncertainty of fate of its key industry.

LONDON, Eng.—The last-minute attempt of the Conservative Party to prevent the nationalization of the iron and steel industry in Britain was defeated by the government in the House of Commons on Feb. 7 when, in spite of the support given by the Liberal Party to the Opposition motion of censure, the Socialists managed to muster up a majority of ten votes. Although there is growing evidence that public opinion is turning against the Labour Government, it is proceeding, nevertheless, with taking over the industry according to schedule. During the course of the heated debate that preceded the fateful vote, both sides claimed that the two new factors in the situation — rearmament and scarcity of raw materials — provide arguments in support of their case. They accused each other of pursuing selfish Party aims to the detriment of the public interest. But, in any case, under the British system of rigid Party discipline, the relative weight of the arguments never influence any votes in the House. The only hope for preventing nationalization was in the possibility of a number of Socialists being kept away by the prevailing wave of influenza. And germs appear to be impartial in their political outlook.

Dr. Paul Einzig

The unbiased observer can have little doubt that the government's decision to proceed with steel nationalization in spite of the changed situation, like its original decision to nationalize steel, was prompted by political and not economic considerations. The industry is working efficiently; its output has reached a new record in 1950; and it is in any case under government control, as far as the fixing of prices and capital development schemes are concerned. It is true, the government relinquished a year or so ago its control over steel allocation, but that could be restored by a stroke of the pen under existing legislation, without having to nationalize the industry to that end.

As a matter of fact, the Minister of Supply, Mr. George Strauss, candidly admitted the object of steel nationalization. Speaking during the debate on the Third Reading of the Iron and Steel Bill, he declared: "We want this industry." The "we" means of course the Socialist Party. While the nationalization of public services such as gas, electricity and transport, can be justified on economic grounds, steel nationalization served primarily the purpose of strengthening the Socialist Party. The reason why the government is in such a haste to apply the law—it was entitled under the Iron and Steel Act to wait until the end of this year instead of taking over the nationalized firms on Feb. 15—is its desire to appease the left wing of the Party.

The "battle of steel" is, however, by no means over. Henceforth it will continue in the form of a trial of strength between the government-owned Iron and Steel Corporation and the Iron and Steel Federation which represents all iron and steel producers, both nationalized and privately owned. Since the voting strength at meetings of the Federation is according to output, the government-owned firms control the Federation, so that in theory it has come under the control of the Corporation. In practice, however, the situation is not so simple. For the Corporation could only exercise its control over the Federation through the executives of the nationalized firms. And for the time being at any rate it is not in a position to enforce blind obedience on the part of those firms.

The position is that, if all members of the boards of the nationalized firms were to be dismissed, or if they were to resign, the result would be utter chaos in the industry. It would take years before they could be replaced. The Corporation finds it difficult even to find suitable men to fill vacant posts on its own board and executive, because there is a complete solidarity among the directors and senior officials of iron and steel firms not to serve in the Corporation. It is this solidarity which will enable the industry to pursue a policy of passive resistance against any undue interference by its new masters. Any attempt by the Corporation to gain full control over the Federation, or to carry out extensive changes in the industry which is disapproved of by the Federation, would be resisted. In theory the Corporation has the remedy in its own hands. In practice it could not apply that remedy without endangering steel production and rearmament.

The next few months will witness a most interesting duel between the two outstanding antagonists, Mr. Steve Hardie, Chairman of the Corporation, and Sir Andrew Duncan, Chairman of the Federation. Both are shrewd Scotsmen and have a reputation for toughness. Mr. Hardie is essentially dictatorial, and he will find it difficult to restrain himself from imposing his will on the industry nominally under his control. But he has to go slowly, because he can not afford to provoke a crisis. On the other hand, Sir Andrew Duncan, too, will have to ascertain the extent to which it is wise to yield. For the Socialists are hoping for an excuse to denounce the Federation and the boards of nationalized firms for "resisting the will of Parliament and the nation" and for "sabotaging the industry." They expect this to be a popular electioneering cry. And the ultimate fate of the industry will be determined by the electorate at the next general election.

The question is when the electorate will be called upon to pronounce its verdict. The government is trying to defer it as long as possible, and meanwhile Mr. Hardie will be doing his utmost to "scramble the eggs" by proceeding with the integration of the industry as far as he can in face of the resistance of the Federation, so as to make it more difficult for the Conservatives to denationalize the industry after their electoral victory. If, in spite of its very narrow majority, the government should succeed to hold out for years, the Corporation will doubtless succeed in recruiting a fair number of iron and steel experts with the aid of whom it might be able to displace the opponents of nationalization.

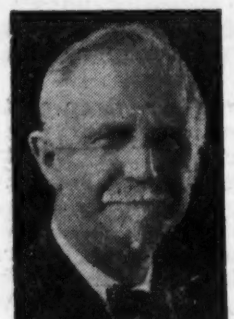
During the debate on Feb. 7 government spokesmen argued in favor of the decision to proceed with nationalization without delay on the ground that any postponement would only prolong the existing state of uncertainty. In reality, the application of the Act on Feb. 15 has not put an end to that uncertainty, which will continue until the next general election. So during a period of international tension Britain will remain handicapped in its rearmament by the continued uncertainty about the ultimate fate of the key industry on which rearmament depends for its principal raw material.

Our Population

By ROGER W. BABSON

Stressing value of Census figures to national and local merchandizers, Mr. Babson discusses new estimates of population in various areas. Calls attention to "Magic Circle," comprising midwest states as being richest in time of peace, and safest in time of war, and concludes it is not improbable that large cities may someday be begging rural sections for life and protection.

During the past year, Uncle Sam spent huge sums of money for many things of doubtful value. Yet, there was one particular government project, undertaken in 1950, which will prove its worth namely, the Federal census.



Roger W. Babson

Complete breakdowns of last year's decennial census are not yet available. However, figures for the States and for most of the country's larger cities have already been released. They are very significant. Those who own their own business, interests in other businesses, or make their living by selling, can save time and money by studying these census figures. They give you, free of cost, elaborate surveys on quotas, routes, territories and other sales problems.

When all 1950 census figures are released, they will tell much on local merchandising conditions and opportunities throughout the nation. However, compiling census figures is a big job and it will probably be many months before all details are published. Meanwhile, readers should watch for the preliminary summaries as they are released each month.

Population Increases

On April 1, 1950, our population was 152,340,000. Since then there have been 3,704,000 births and 1,461,000 deaths and a net emigration of 10,000. This gives us about double the annual gain of 10 years ago. Those States possessing the advantage of a mild climate show the greatest population increases. California is up 51.6% from the 1940 level and is followed closely by Texas, Arizona and Florida. This increase of population is not coming from "playboys," but from good substantial Northern people who are retiring from work on pensions. They make excellent citizens for any community.

Undoubtedly, the national trend is toward greater increases in leisure time. Firms engaged in the production of recreation equipment will more than hold their own in the years to come. Not only in the above States, but elsewhere throughout the nation.

States That Have Stopped Growing

Nearly half of the States—22 to be exact—show population increases *below* the national average in the 10-year period from 1940 to 1950. Five States register actual population losses for the period. Many of these 27 States were sparsely populated anyway and their poor showing in this census is due in part to the fact that proportionately the number of men they sent into the armed forces during the second World War was high.

The gains in population shown by the Far Western States reflect clearly the wartime migration to the West Coast to fill jobs in the huge defense establishments out there. California has the double advantage of mild climate and plenty of jobs for everyone.

The Rural States

Many cannot understand why I continue to call attention to the "Magic Circle," comprising the States of Iowa, Missouri, Arkansas, Nebraska, Kansas and Oklahoma, as being "the richest in time of peace and safest in time of war." They point out that three of these States—Arkansas, Nebraska and Oklahoma—actually lost population during the past 10 years while the other three enjoyed only nominal increases which, in each case, were far below the national average. The reason for this apparent contradiction is that these six States have few large cities. Too many people foolishly continue to want to live in a large city.

Numbers do not necessarily represent true progress. The first consideration should be economic opportunity. I maintain that more economic opportunity exists in the more sparsely settled States. Readers should not forget that food experts, economists and leaders in the conservation field consider the rural States the hope of North America in the years ahead. Recent events have made it clear that our Communist enemies will try to destroy not only our position as a leading power, but our very existence as a nation. It is not at all improbable that the large cities of the nation may someday be begging the rural sections for life and protection.

A Second Look at Some Popular Beliefs About Russia

By R. GORDON WASSON*
Vice-President, J. P. Morgan & Co. Incorporated
Chairman, Committee for the Promotion of Advanced Slavic Cultural Studies

Banker warns we are unwittingly helping Stalin wage his psychological warfare by treating Russians as unsolvable riddles; by failing in our utterances to distinguish between the rulers and people; by spreading myth that Russian people never knew a better lot than now; by lumping them with Asiatics as epithet; and by assuming Russian people are distrustful of foreigners. Concludes West by these fallacies is reinforcing Soviet rulers' Iron Curtain.

R. Gordon Wasson

Let me try and help in that important task of clearing the air of misconceptions that are bedeviling our thinking about Russia. My method will be to lay before you a series of five propositions and explain them briefly. My first proposition is this: *We Americans in all humility should face the fact that, by and large, we are tragically ignorant about Russia, about Russians, and about their rulers.* This ignorance is easily explained historically. Until 1917 our country had only occasional contacts with Eastern Europe. Our ancestors for the most part came from Western Europe and our ideas and ways come down to us from the Teutonic and Latin peoples, from Rome, and through Rome from Greece and Judaea. There was never any place in our education for Slavic matters. But this reason for our ignorance makes it no less costly now.

Know Your Foe

In world affairs, as at the Bar, it is well to study and know your foe. Since we Western folk pride ourselves on our intellectual vitality, our unfamiliarity with Russia is a disconcerting thing, in this year 1951. For 33 years and more we have been living in the same world with Soviet Russia, and for all that time we have preferred to go on talking about her and guessing, rather than study her. Churchill gave perfect expression to this situation when he said in 1940 that Russia was a riddle wrapped in a mystery inside an enigma. What he said was well and truly spoken, and his aphorism is almost as true today as it was 10 years ago, but this admission that we are baffled is nothing for us to boast about. Even now we continue to lurch from one extreme view to the opposite. In 1948 an American in high position declared that he liked "old Joe," who was, he said, a decent fellow. Two years afterwards "old Joe" had become for this same public figure the "inheritor of Genghis Khan and Tamerlane." The irony is that both pictures of Stalin are equally false. I remind you of these remarks, certainly with no thought to make merry, for there is nothing merry here, but because if we are honest with ourselves, we must admit that such fumbling characterizes much of our thinking about Russia. I would raise with you the question whether Russia is the riddle, the mystery, the enigma, or whether we are. Imagine, if you please, that you are an observer watching both countries from afar, and equally detached from both. For such an observer, Russia over the past three decades has hewed pretty close to the line of hard, cold, consistent policy. The same cannot be said of us or of Britain or of France. Our doings, our gyrations, must often seem strange and unpredictable to the Kremlin.

*An address delivered by Mr. Wasson before the Saturday Forum of the Practicing Law Institute, Feb. 17, 1951, at the Hotel Commodore, New York City.

We Can Learn About Russia

There is no reason why we can't learn about Russia. There are today among us, thanks to the work going forward at a number of our universities and colleges, a nucleus of first-class authorities on all matters Russian. Those of you who have never explored the field would be surprised to discover how rich are the sources of solid information about Russia and the Russians and the Soviet regime, about her history and culture. I will go so far as to say this, that many of the big, general questions about Russia discussed every day among us Americans and discussed often with considerable heat, are not legitimate areas of dispute at all, for the answers are an agreed matter among informed people.

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So much for my first proposition. Now for proposition two. *It ought to be an invariable rule among us, in all our utterances about Russia and in shaping our policies toward that country, to distinguish between the Russian rulers and the Russian people.*

In countries such as ours, where the government is truly a projection of the people's will, we can say fairly enough that we get the government we deserve. But we who are not used to despots must be careful to remember that despots are not always chosen by the peoples over whom they rule, and even when originally so chosen, those tyrants often hold fast to the rudder of state long after adulation has turned to fear and hate. In Russia there are of course millions of beneficiaries of the regime—those who constitute the "apparatus" of the government—whose privileges and even lives depend upon its survival. It is also clear that in a country so thoroughly permeated by the State police as Russia is, the mass of the people have no means to give overt expression to any dislike they may feel for the regime, much less organize active opposition.

Resentment of Russian Masses

But this does not belie the evidence that the Russian masses resent the yoke they carry. We are beginning to learn about the initial joy of liberation that greeted Hitler's troops when they invaded Russia in 1941—a joy that was soon stilled by the brutality of the German forces. You may have heard about the numbers of Russian troops that fought for Hitler in Russia, certainly not because they liked Hitler but because they hoped to overthrow the Soviet regime. There is no denying the existence of slave labor camps in Russia, in which under the harshest conditions millions of Russians are condemned to live and to die. Neither they nor their families nor their friends nor others who fear such a fate are likely to be enthusiasts for the Soviet. Especially in the French language, book after book has been appearing in recent years with first-hand descriptions of conditions in Russia, written by non-Russians—by a Polish Zionist, by a Swiss woman, by a former Spanish communist general, by others. Their burning recitals leave no doubt about the extent of human misery in Russia, and will suggest the possibilities favorable to our cause that must be latent in the Russian people. In any police state the techniques by which a people express their true feelings are apt to escape us Americans, because we do not readily imagine the conditions under which they live. There is needed a special training of the perceptions to catch the signals. Some years ago Soviet Russia awarded the Stalin prize to a film based on the life of the composer Glinka. When the prize was awarded, even the Soviet authorities had not noticed the double meaning that ran through the whole length of the plot. On its face it was an indictment of Tsar Nicholas I, but on another level it was a satire on Stalin. When once a spectator possessed the key to the double meaning, the satire was transparent and devastating.

There is another deep-seated factor to bear in mind. It is a significant fact about the Russian people that for centuries they have lived their own lives, nurtured their own hopes and ideals, and always considered their government as a thing apart from them and never up to any good. We need have no fear: the profound inner contradictions of the so-called communist regime in Russia—the chasm that separates its humane professions from its practices—these things are clearer because nearer to the perceptive Russian people than to us. You sometimes hear it said that any generation brought up from infancy under the spell of a saturating propaganda will be its docile victims. They may or may not in some sense be its victims, but certainly not docile. The human animal revolts against indoctrination in the long run, just as toxins generate anti-toxins. I have talked with some of the young Russian refugees who have lately come out of Russia and it is breathtaking to see that the communist jargon and ideas seem to have taken no hold on them at all.

Blurring of Distincton Between Regime and People

It is in our American tradition to sympathize with the politically oppressed. In the specific case of Russia, I remind you that from 1917 down to about 1934, it was the custom in our country, in both official and unofficial circles, to distinguish between the Russian regime and the Russian people. After the recognition of Russia this distinction seemed to become blurred. In my judgment we cannot hope for a fundamental improvement in East-West relations unless and until the Russian people bring their influence to bear on that country's policies. That day may well be distant, and let me add that even when it comes it will certainly not mean that Russia will model herself on the United States, for the Russians must work out their problems according to their own genius. That day will be brought measurably nearer if in all our thinking, in all our planning including our tactical planning, we talk and act as though we are counting on the friendly cooperation of at least a good part of the Russian people, and as though they can surely count on our sympathetic understanding of their dire tragedy.

* * *

By now some of you may be objecting that I have overlooked an important fact, viz., that in the case of the Russian people, "they never knew anything better than their present lot," and cannot therefore imagine a better alternative. This brings me to my third proposition: which is that *the worst of all fashionable fallacies concerning Russia is that the Russian people never knew a better lot than their present one.* We lose all sense of proportion when we compare the seamy side of Russia in the decades before the Revolution of 1917 with the barbarities of the present despotism and its warfare against human freedom in all its aspects. Let me remind you of some of the traits of Russia between, say, 1870 and 1914.

Fifty years ago any foreigner could normally enter Russia by merely presenting a passport. Once he was there, he was on the same footing as any Russian. That is to say, he could talk to anyone, and no one was nervous about being seen with him. Anyone, whether foreign or Russian, could go down to the railroad station on the spur of the moment and buy a ticket and go to any part of the vast Russian empire by the next train. The normal foreigner and the average Russian were not conscious of police surveillance.

In the years before the Revolution of 1917, Russia was in the full flood of a material and spiritual rebirth. As for material things, food and clothing were ordinarily cheap and abundant. The industrial revolution, which began later than in England and the West, was at last well under way, and the national income was rising fast.

Russia's Better Days

The intellectual and artistic life of Russia in those days was a stirring thing to see. I do not need to remind you of the respect in which the whole world held Russian men of letters, the Russian theater and ballet, the Russian composers and opera. In recent years the Soviet regime has made absurd chauvinistic claims for the priority of Russian scientists in every field. These exaggerations should not lead us to under-estimate the scientific accomplishments of Mendeleev, Mechnikov, Pavlov and others. We in this country have been the beneficiaries of the first-class scientific training that was then obtainable in Russia, for in many of our universities and in the research laboratories of our corporations, Russian trained scientists have been leaders among us for 30 years, ever since they fled their native land. Among these I might cite Zvorikin in electronics, Timoshenko and Karelitz in mechanical engineering, Bakhmeteff in hydraulics, Ipatieff in chemistry, and Avinoff in zoology. The Russian universities were on the highest level of excellence, and here again many of the distinguished Russian professors driven into exile, men like Vinogradoff, Rostovtzeff, Karpovich, Vernadsky, have enriched the faculties of Oxford and Harvard and Yale and other universities. In fact the *quality* of Russian education in schools at all levels in those times was exceedingly high. One of the inspiring things about the Russia of those days was the nationwide enthusiasm for education. By 1914 illiteracy was already beginning to be a problem of the advanced age-groups, for whom there had been no schools in childhood. It is a mistake to suppose that the Soviet regime initiated the impulse for universal education in Russia. What they have done has been to deprive literacy of its virtue. Tolstoy in one of his prophetic utterances said of the diffusion of printed matter that it could become the mightiest engine for the dissemination of ignorance, and the Soviet rulers have undertaken to fulfill his premonition.

Serfdom was not abolished in Russia by the Soviet Revolution. It was abolished in 1861, two years before we freed our slaves. By 1914, 75% of the arable land of Russia was owned by peasants. It is a mistake to suppose that the Russian people had no experience in self-government. There was local self-government in cities and the countryside since the 1870's and it worked well, at least by our American standards. After the judicial reforms of Alexander II there was trial by jury, and considering the novelty of this institution, it too worked well. Juries of ordinary peasants in trials of notable significance showed time and again their independence of objectionable pressures. Some of you may have read about the Beilis case, when in 1913 a jury of Russian peasants withstood the intrigues of bigots and rightly gave the Jewish defendant a clean acquittal of the infamous charge against him. For those who love justice it was one of the great trials of history, and drew at the time the world-wide attention that it deserved.

1917 Government a Constitutional Monarchy

The government that was overthrown in 1917 was not a despotism. It was in substance a constitutional monarchy, though this term was not used. There was an opposition press, and opposition parties in the Duma or parliament. Survivals of hereditary social stratification were rapidly disappearing, and careers were open to talents. Scholarships for poor students in schools and universities were numerous and well administered. High achievement by persons of modest origin in the sciences and learning, in the government and the armed forces, was common. The last chief of staff of the Imperial Army, General Denikin, was the son of a man who had been born a serf. Many such instances could be cited. There was no House of Lords in Russia, no constantly consulted reference books like Debrett's peerage or the social register. The titled families and landed gentry exercised no legislative or executive functions, and enjoyed no legal privileges of practical value. It is an ironic fact that many Russians with inherited titles, such as Prince, never had occasion to consider them an economic asset until the days of their exile, when, arriving in the West as refugees, they discovered to their delight that we Americans had a weakness for titles.

Much has been heard about how political exiles were transported to Siberia in the days of the last Tsars. Today slave labor camps of Russia hold millions, living in sub-human conditions. The political exiles before the Revolution never numbered more than 50,000 at one time, and in 1914 were about 15,000. Moreover, for the most part they were not condemned to hard labor; they pursued their own occupations on the frontier, forbidden to leave a defined area, and their families could join them. Some, like Lenin, composed revolutionary books. Others, like Stalin, hunted fox in the primeval forest and ducks on the tundra. We know a great deal about how these political exiles lived, because many of them have told us the story themselves. Normally they either outlived their term of banishment or escaped. Escape was frequent. Stalin was banished four times, and escaped all but the last time with apparent ease.

In thus recalling some of the facts about pre-Revolutionary Russia, I wish to emphasize that I am not pretending to give a complete picture. Nor am I suggesting that the Russian people today as a whole have a clear knowledge of conditions before the Revolution. I am certainly not suggesting that it is possible to set back the hands of the clock and return to the dead past; such nostalgic phantasies have no place

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"Don't Miss the Caboose"

(which now includes "the managers of many institutions which have not hitherto been common stock investors" as one market commentator recently defines it) became greedier the higher the market advanced, and more careless in selection. Thus, we now have a prostituted market, what with many of the 20 or 30 leading stocks each week definitely of inferior quality.

The psychology of the marketplace now is the tendency to read all bullish comments, market letters, news items, etc., and to share them generously with others; and at the same time mildly unfavorable news is overlooked. This tendency, together with the enthusiasm of the board room, the slogans "Inflation is here," etc., the cheering and the jeering, the noise and hurried movements all keep the public nervously glued to its investment or speculative position and creates a paralysis of selling ideas. Many people "just can't get themselves to sell" in a strong, enthusiastic market; this even includes some of the professionals and floor traders. Yes, inflation is here in the American stock market and in the board room, but the rise since May, 1947, or June, 1949, and even July, 1950, more than discounts the effects of any recent inflation or that which lies ahead for some time to come. Actually, there has been little, if any, net inflation since the bull market started. For proof, investors are advised to ascertain the difference between the National Debt as of May 1, 1947, and Jan. 1, 1951. The change in amount and in percentage is surprisingly small. And, the change in the next six months to year will continue to be very small. And, Wall Street should note that inflation is here in the family budget, however, and that savings cannot be accumulated further for the purchase of stocks. Thus, investors and speculators will have to toss them around among themselves until they tire of taking in each other's washing, especially if the Federal Reserve Bank shortly orders a 100% paid-for basis for stock purchases.

Those investors who ask themselves whether or not the time has been reached to liquidate stocks should consult back issues of financial literature to observe how many articles were written in a bullish vein at the top of 1937 (February and March), the top of 1939 (September) and the top of 1946 (May and June). They should note also how few were pessimistic and what the comments were after each succeeding, substantial bear market. It should not be difficult, after such interesting research, for the investor to decide what to do in this period of extraordinarily high trading volume and speculative gyrations. Also, it should not be difficult to take a firm stand, liquidate at the market, and place the reserves in a "war chest" as one of the Street's most successful professional investors calls his cash reserve accumulated in this and other bull markets for use only in panics or very weak markets.

Perhaps the technical and psychological angle of the current market may be summed up best by stating that it is a fact of the auction business that when there are few buyers, prices tend to be low; when the auction room is crowded, bargains are rare. The New York Stock Exchange is a great auction, connected with thousands of rooms, in which tens of thousands of interested persons are connected by wire, teletype, telephones, etc., with millions of people owning hundreds of millions of shares at the highest prices in history, excepting 1929 and early 1930. These are the people whose purchases have been responsible for market averages reaching the current peak. But by the same token a change in their psychological attitude could reverse the trend in a marked way.

The Government or Political Angle

The government or political angle is more important than it used to be, before regulation of trading on the Exchanges came into being, and since 1927 when the government tinkered with Federal Reserve policy and money rates and lent its influence toward easing, instead of tightening, money, thereby failing to apply necessary brakes. This resulted in the Great Boom of 1928 and 1929, which in turn had its reaction in the panics of 1929, 1930, 1931 and 1932, and led to the collapse of confidence in bankers and business and in the Republican Party as a leader. Thus, government relishes neither boom nor panic. As now constituted, the government has a responsibility for the general welfare to step down upon a boom. The present Administration has a double responsibility, since it also must curtail the excesses which this boom created because this Administration successfully generated the incipience of the recovery in 1949. What it has started it must finish, for next year it must answer to the public which, because of the sharp increase in the cost of living, is seeking the reason for the current high costs of living.

The Administration, furthermore, has a selfish interest in stopping this boom, since it is better to have a good correction now so that by the spring of 1952 the market, etc., can turn upward once more and enjoy somewhat of a boomlet just before Election, 1952, than to have a runaway boom which won't be stopped until it topples under its own weight into the laps of the Administration before Election Day. This Administration seems too shrewd politically to allow something to happen which happened to the Republicans in 1929 and 1930, and gave the New Dealers and Fair Dealers their 20-year lease of life in the White House. A government reason for stopping the speculative boom is that this nation will have an important refinancing job to do when the first "E" bonds mature in the not-too-distant future; and, a bigger refinancing job next year. This job must be done successfully if the Truman Administration is to have a change for reelection in 1952.

There is no doubt in the writer's mind that the government can, and will, stop the speculative boom, and that it will be stopped soon. The next move probably will be 100% paid-for basis for stock purchases. Further measures will be taken as to restrictions on loans. Tighter controls on prices and wages will be put into effect. Some five to ten billions will be lopped off the proposed budget. It is felt that before the government will have to resort to "politically distasteful" anti-inflationary measures, the more intelligent operators, trust managers, large investors and speculators will take their cue from the recent, or the next government restriction, will liquidate in the current strength or at the market at the first sign of weakness, and leave the well-boomed stock market in the hands of weaker, less intelligent, less experienced market elements.

The government, through the Federal Reserve Bank and/or the Securities Exchange Commission should reduce margins on "short" sales to 40% from the current 75%, in order to compensate for raising the margin requirements on short-selling recently at the same time that margins were raised on securities purchases. It is illogical, in attempting to control a boom, to make it more difficult to sell stocks than to buy stocks; but, that is just what the Federal Reserve Bank did when it increased margins for the "short" seller. Furthermore, the government through the Securities and Exchange Commission should relax the excessive restrictions on short-selling. All regulations against short-selling should be eliminated, except the right to sell below the last sale; in other words, the right to "hit the bid" as the long holder is free to do. Give the "short" a chance to compete with other offerings, in turn, at the last sale.

Finally, investors should remember that Mr. Truman has asked Congress for higher taxes, retroactive to Jan. 1, 1951. The December tax bill made taxes retroactive to July 1, 1950. Congress will hear from the women of the country and from retired farmers, businessmen, professional people and salaried persons who have been pinched over the last six months by the terrific rises in commodity prices. Consequently, Congress may increase corporation income and excess profits taxes further and personal and capital gains taxes could be raised; even the politically hot national sales tax might be considered seriously for a time; and more and more excise taxes hidden between manufacturing costs and retail prices.

Financial and Economic Angle

Financial straws in the wind are the sharp increase in business loans to carry swollen inventories and slower accounts, an instalment debt total approaching $20,000,000,000, and a rapidly mounting mortgage debt on not too sound a loan basis. These are financial warnings of the first order.

Despite the stock market's ebullience, business six months to a year hence may not be as good as expected, and profits almost certainly will be a good deal lower. The reversal in corporation earning power has been sudden. It is little wonder, therefore, that the National Industrial Conference Board, in reporting the results of its recent survey of 178 manufacturers as to 1951 prospects, says:

"Despite an expected record output this year, American manufacturers foresee substantially reduced profit. . . . Among the certainties are higher material and labor costs, more low-profit government orders, smaller margins on civilian business, and a larger tax-bite. Among the uncertainties are what's going to happen in the world and the vagueness of American defense plans. Some even foresee a decline in production and many fear shortages of either raw material or labor, or both."

In view of the foregoing, and of the speculative excesses in the stock and commodity markets, some of which border on the fantastic, the exhortation, "Don't Miss the Caboose," should be as valuable to an investor as the "Last Call for the Diner."

Strauss Bros. Adds Carlson to Staff

Strauss Bros. Inc., 42 Broadway, New York City, announce that Hugh H. Carlson, formerly with Chas. E. Quincey & Co., is now assocaited with the firm.

Securities Salesman's Corner

By JOHN DUTTON

Advertising in the Retail Securities Business

(ARTICLE No. 3)

In article 2 of this series, we suggested that qualified leads could be secured by offering booklets, reprints of timely articles on investment problems, and information free to investors on subjects in which certain groups might be interested. After you have decided to go ahead with such a plan, and you have chosen your subject matter, the way you present it will, to a large extent, determine the results obtained.

Of course, if you have the funds available to hire advertising experts, that is one thing. But if you are located in a section where such assistance is not available, or if you have to do the best job possible yourself, it is a different story. Some of the best advertisements have been written by men who know their own business, and who write about it from the inside out. After all, no one knows what you can do for people in the way of service any better than you do. So, if I were going out to put my story before the people in my community, I don't think I would let the fact bother me too much that I couldn't hire experts in advertising. I'd make it short and put my story in plain language. Here are a few ideas that may be helpful.

The choice of a headline, or a title for a pamphlet is very important. You can make or break an advertisement with the headline. It is a recognized and proven fact that astute book publishers place considerable emphasis on the right titles. It has been shown that by the changing of a title, sales of some books that never sold more than a few thousand copies have been increased to as much as 50,000 copies, yet not a line of the manuscript was changed. Put the "You" angle into it. Try and visualize what sort of a headline would attract the people that you are trying to reach. Then write out as many headlines as you can. Put them aside for a day or two. Then look them over and cull out those you think unsuitable. Write them on separate lists and ask your office associates to number them in the order of what they think might be the most effective. Possibly someone will come up with a better idea than any you have thought up. The headline is important—you have to make people stop and read—financial advertising does not have to be undignified, but it shouldn't put you to sleep either!

There are some security dealers who do not believe that double return postal cards should be used in advertising campaigns, because they are usually associated with highly promotional advertising and the sale of such things as powders, pills and the like. It is true that unless a double return card is prepared in a manner that lends itself to the subject matter, it can be placed in this category. Use a good quality of paper. Keep the size small. Put a frame around your message through the use of a single line border—every picture looks better in a frame. Have your printer help you select a type-size and style that is suitable for your message. Make your double return card look neat and impressive—it doesn't have to shout to get attention—the right headline will keep it from going into the waste basket.

After you have decided upon the size of your advertisements, type-style, layout, etc., don't change. Do the same with your double return cards and even your letters. In this way you obtain the benefits of both association and repetition. There is a permanent, yet intangible, "good-will" value that can be built into your advertising in this way. People will begin to recognize your ads at a glance, they won't have to look for your signature after a while.

As an illustration of how effective this can be, take the advertising of B. S. Lichtenstein & Co., 99 Wall Street, New York City, which has been appearing in same position on page 3 in the "Chronicle" every week for many years. The distinctive copy with its clever yet subdued humor has become associated with "obsolete securities" from coast to coast. The layout, position and type-style is always the same—only the copy changes; yet it always says, "for Obsoletes see us."

Watch your headlines, make them say, "Stop, Look and Listen," keep the quality of your direct mail high, and once you have adopted a type-style, layout and size for your advertising, stick to it.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Gustav Metzman, President and Director of the New York Central System has been elected a Trustee of the **Emigrant Industrial Savings Bank of New York** it was announced on Feb. 14 by John T. Madden, President of the bank. In addition to the Presidency of New York Central, Mr. Metzman also serves as an executive officer and director of a number of railroad and transportation companies. He is also a director of J. P. Morgan & Co., Inc.

Gustav Metzman

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Kenneth A. Durham has been appointed a Vice-President of **Chemical Bank & Trust Company of New York** according to an announcement by N. Baxter Jackson, Chairman. Mr. Durham, a native of Chattanooga, Tenn., a graduate of McCallie School, Chattanooga and of Washington and Lee University, has a broad association with the textile industry. Upon graduation from college, he became associated with the Textile Banking Company of New York City as southern representative with headquarters in Charlotte, N. C. Subsequently he became a Vice-President of the Davenport Hosiery Mills in Chattanooga and later President of the Rollins Hosiery Mills of Des Moines, Iowa. Recently he has been President of Snowdon, Inc. of Osceola, Iowa, manufacturers of textiles. At the Chemical Bank, he will be associated with Howard W. McCall, Jr. and William G. Dewitt, Vice-Presidents, and Daniel A. Finlayson, Assistant Vice-President, in the handling of the general business of the bank in the southeastern states, including the substantial textile business in those states.

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Irving Trust Company of New York has announced the election of Harold L. Nelson as an Assistant Secretary of the Company. Mr. Nelson heads up the Company's Brokers Loans-Securities Department at One Wall Street Headquarters.

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The Board of Trustees of **The Bowery Savings Bank of New York**, announced on Feb. 13 that John W. Larsen, Assistant Vice-President, was appointed Assistant Vice-President and Deputy Controller, and that H. Wendell Phillips was appointed Deputy Controller. Mr. Phillips was formerly Deputy Auditor.

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Charles E. Cockey, Henry G. Meyer, Robert W. Ostermeyer and Albert Roeder have been appointed Assistant Secretaries of **Manufacturers Trust Company of New York** it was announced on Feb. 15 by Henry C. Von Elm, President. Messrs. Cockey, Meyer and Ostermeyer all were Assistant Managers in the Personal Loan Department prior to their present promotions. Mr. Roeder had been Purchasing Agent of Brooklyn Trust Company for about 16 years prior to the merger of that company into Manufacturers Trust last October. He will continue to be associated with the Purchasing and Maintenance Department of Manufacturers Trust.

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The Public National Bank and Trust Company of New York announced on Feb. 15 the following promotions at the 5th Avenue and 42nd Street Office; Henry Sanders, Vice-President, elevated to the head of that Office: Joseph Zurhellen, Assistant Cashier advanced to Assistant Vice-President; James Clifford, Chief Clerk and J. Bradford, Wilson, Credit Supervisor advanced to Assistant Cashiers.

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An exhibition of oil paintings and water colors by J. Louis Lundean, and sculpture by Marjorie Daingerfield will begin March 1st for the entire month at the Rockefeller Center office of the **East River Savings Bank of New York**, at its 50th Street and Rockefeller Plaza bank quarters.

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The County Trust Company of White Plains, N. Y. has received permission from the Federal Reserve Bank and the New York Banking Department to open a banking office in Bedford, N. Y. according to an announcement by Andrew Wilson, Jr., Chairman of the Board of the trust company. No date has been set for the opening of the new office, which will be situated in the Bedford-Court Building. Alterations are planned to convert the present store area into suitable banking quarters.

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Under date of Jan. 30 the New York Banking Department in its Weekly Bulletin announces that approval was given to the **New Rochelle Trust Co. of New Rochelle, N. Y.**, to a certificate of reduction of capital stock from $1,025,000 consisting of 105,000 shares of preferred stock of the par value of $5 each and 50,000 shares of common stock of the par value of $10 each, to $500,000 consisting of 50,000 shares of common stock of the par value of $10 each. A previous item in the matter appeared in our issue of Nov. 23, page 2000.

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The New York State Banking Department reports that approval was given to the **Mount Vernon Trust Company, of Mt. Vernon, N. Y.** on Jan. 26 to a certificate of reduction of capital stock from $1,050,000, consisting of 300,000 shares of preferred stock of the par value of $2.50 each and 150,000 shares of common stock of the par value of $2 each, to $700,000, consisting of 160,000 shares of preferred stock of the par value of $2.50 each and 30,000 shares of common stock of the par value of $10 each.

* * *

The placing of the **Flushing National Bank, of Flushing, N. Y.** in voluntary liquidation Jan. 15, following its absorption by the **Bankers Trust Company of New York** in December was noted in the weekly Bulletin, Jan. 22 of the Office of the Comptroller of the Currency. The quarters of the Flushing bank are now operated as a branch of the Bankers Trust. Details of the plans for the taking over of the bank, which had a capital of 500,000, were given in our Dec. 7 issue, page 2195.

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A stock dividend of $200,000 has served to increase the capital of the **Oneida National Bank & Trust Co. of Utica, N. Y.**, effective Jan. 23, from $600,000 to $800,000.

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A Second Look at Some Popular Beliefs About Russia

in real life. What I do suggest is that if the values that we in the West prize most highly are the real values, if we give weight to the aspirations of the Russian people and their spiritual satisfactions as well as to the standard of living in appraising their well-being, then the Russians may be said to have once known, not many decades ago, one of those stirring epochs in history when the human spirit takes wings and a gifted people is lifted up by faith and hope. I wish also to point out that the Russian people gave earnest to the world at that time of their potentialities for good, and it is in our interest as well as theirs that we build on those potentialities as we shape our policies today.

* * *

And now I come to my fourth proposition: *Let us all be satisfied to call the Russians Russians.* Here is what I mean. Less than a year ago, on a national hook-up, a professional commentator announced to his listeners, in a voice pitched to indicate the discovery of an earth-shaking truth, that the Russian question would be clear to us all, if only we would remember that the Russians are Asiatics. Some few weeks ago in a letter published in the New York "Times" a college professor enumerated what he called "the civilizations of Asia," and he said they were China, India, Arabia, and Russia. What purpose is served by calling the Russians "Asiatics" when they are not Asiatics? "Asiatic" is an epithet, not a description of a people or a civilization. Asia is an immense land mass where there have flourished many noble civilizations as widely different as Moslem, Buddhist, and Chinese, not to speak of the cradle of Christianity. "Asiatic" is doubly wrong when applied to the Russians, who are Slavs and East-Europeans. Their ancestors were living on the banks of the Vistula, in what is now Poland, when Tacitus was writing his history in 98 A.D., and already they were a sedentary peasant people. The folklore and proverbs of the Russians are part of the common heritage of those peoples, including ourselves, who are grouped together under the designation of Indo-European. For the Chinese a Russian is a European white man speaking a European language, who has aggressively overrun a large part of Asia. Let us not forget this.

The Russian language is cousin to English and Latin. Scratch a Russian word, and more often than not you find a familiar root. For us Americans to learn any language other than our own seems a big undertaking. But it is a question of degree. If all of you who have devoted your leisure hours to unproductive avocations such as cross-word puzzles —if, I say, you had turned your energies to the Russian language instead, you would have opened to yourselves a world of dazzling intellectual adventure, and our country would have been the richer by your knowledge of the Russian world thus acquired. In short, there is no truth in the oft heard remark that the Russian language is impossibly difficult. Nor is it true that the Russians possess a peculiar gift for languages. Their difficulties are quite as great as ours, but as we ordinarily meet only those who have learned English, we easily slip into the erroneous notion that they are all good linguists.

Shared Christianity With Us

The Russians have shared with us the great heritage of Christianity. For a thousand years this tie has united the Slavs and Eastern Europe with the West, even though their Christian tradition descended from Greece rather than Rome. Over the past 250 years the Russians have looked more and more to the West for their cultural influences. Obviously their technology comes entirely from the West. They learned from us to admire universal education. They have soaked themselves in Western philosophical and political thinking. The Russian revolutionaries took their Marxism from the West, not from the Orient. A study of Oriental thought, no matter of what school, will not help you to understand Russia. It is erroneous, in any sense, to assert that Stalin is a reincarnation of Genghis Khan or Tamerlane. It is true that the Russians many centuries ago and over the course of centuries were in the front line of battle against oncoming Asiatic invaders. The Russians' desperate struggle for survival in those dark centuries naturally left its impress on their political institutions and habits of thinking, and in this way the Russian people were influenced by Asia, but not so much by amalgamation as by the profound effects brought about by their struggles to reject the invaders.

I have stressed this false "Asiatic" designation for the Russians because the use of that term is typical of the unworthy efforts that many of us make to exorcise the Russian incubus by what might be called, in medical parlance, verbal "analgesics," or painkillers. We think we can conjure away the spectre by uttering the magic word "Asiatic" or "Oriental."

* * *

As an offshoot of what I have just been discussing, I will now state my fifth and last proposition: viz., that *it is a mistake to say the Russian people have always distrusted and disliked foreigners.* Those who hold that xenophobia is a deep-seated trait of the Russians are misinterpreting, in my judgment, the record. They support their case with two kinds of evidence. First, they point to the utterances of certain Russians in the 19th century, notably the Slavophiles, among whom it was fashionable to run down the West and exalt the Slavic heritage. But these highly articulate intellectuals were expressing a sophisticated philosophic position far removed from the thinking of the masses. It is noteworthy that these eminent Russians displayed no prejudice against foreigners in their personal relations; quite the contrary. Secondly, those who call the Russians xenophobes point to the bizarre, not to say uncouth behavior toward foreigners of Russian officials. This strange behavior is not a Soviet invention. Students digging in the archives can show you that Russian officials have been hard to deal with, and suspicious and rude, right back through the centures at least to the time of Queen Elizabeth. But what we must remember is that these Russian officials behave in exactly the same unpleasant way toward their Russian compatriots. They are not xenophobes. They conduct themselves according to the habits of the Russian bureaucracy, a code whose tough continuity weathered even the shock of the Soviet revolution. It is merely an extreme example of the arrogance that is a familiar occupational disease of bureaucracies, and to which a bureaucracy is especially susceptible when it owes no responsibility to the people that it purports to serve.

The truth is that the Russian people, as distinct from the officials, are perhaps the most warmhearted and hospitable in the world, and especially toward foreigners. At least from the time of Peter the Great, Russia absorbed a steady flow of foreigners, welcoming them, learning from them, and generously bestowing honor and advancement on them. The diaries of foreigners who lived in Russia reflect the warmth of the welcome that awaited them everywhere. There are many foreign family names in Russia, evidence of this continuous stream of western blood that was absorbed there.

In this talk I have drawn your attention to a number of popular fallacies concerning Russia. I have presented my successive propositions as clearly and persuasively as I could, because it is my profound belief that they are true and that they offer the only premises on which all approaches to the Russian problem must be based if we are to build on rock, for the long future.

Our Help to the Russian Regime

I am now going to recapitulate my propositions in reverse order, and as I do so, I draw your attention to a curious fact. In every instance it is advantageous for the Soviet regime that we should persist in error. Thus, firstly, it is in their interest that we should mistakenly consider the Russian people distrustful of foreigners and viciously disposed toward us, for this widens the gulf between us and our potential friends. Secondly, it can only be gratifying to the Soviet authorities that we should persist in thinking the Russian language too difficult to master, because by our indolence we thus preserve a linguistic wall to separate us from the Russian people. It cannot help but please the Kremlin when we cast the Russian people into outer darkness by erroneously lumping them with races as culturally remote from us as the Mongols and Hindus. Third, the Soviet rulers will surely be gratified if we persist in extenuating their ferocious behavior toward their own people by our mistaken assumption that the Russians never knew anything better. Fourth, the Soviet rulers can only be the gainers when by careless thinking and careless expression we imply an inner solidarity between the regime and the people it rules—a solidarity that neither the regime nor the Russian people feel and that can only lead us into grievous mistakes of policy as we gradually succeed in communicating with the Russians. Fifth and lastly, the Soviet rulers certainly have no reason to deplore what must seem to them our invincible ignorance concerning all things Russian. In all these matters you will observe that we of the West by our own negligence are weaving an extra lining to reenforce the Iron Curtain that the Soviet rulers have lowered around their dominions.

When you hear people talk about how the Russians have always hated foreigners, or how difficult the Russian language is, or hear them say that the Russians are really nothing but "Asiatics" and have never known anything better, and that the behavior of their rulers expresses their instincts, then I suggest that you take an exception, and make a mental note that the people who embrace such mistaken notions, and give voice to them are, all unwittingly, waging Stalin's psychological warfare for him.

Let Us Not Lose the War On the Home Front

By DEXTER MERRIAM KEEZER*
Director, Department of Economics, McGraw-Hill Publishing Company

Business economist warns of danger of losing the struggle on home front through inadvertent conversion of our system to collectivism. Decries slavish following of World War II's controls program, which was designed to meet differing all-out war needs. Predicts direct controls put on as inflation lid will end in shambles; and advocates (1) tax program to close inflationary gap; (2) an effective wage-fixing program; (3) time limits on, and review of, all direct price control arrangements; and (4) increased production.

There are, I take it, two general ways by which we might lose our struggle against Russian Communism. One is to be knocked out completely on the battlefield. That would pave the way for a set of Russian Commissars to come in and make a physically triumphant installation of a Communist system. As a part of that installation I imagine that most of those present, including the speaker, who had happened to survive the armed warfare would be liquidated. I anticipate no such development.


Dexter M. Keezer

The other way by which we might lose our struggle against Russian Communism would be to have our system remodelled internally along collectivist and ultimately Communist lines. That might, I assume, be accomplished, or at any rate, facilitated by fifth column activity, at which the Communists seem singularly gifted. Or we might attain the same end largely by a process of fumbling and stumbling.

Various combinations of military forces, subversion and stumbling are, of course, possible, and indeed probable in the struggle with Russian communism.

The possibility on which I intend to concentrate, however, is that of losing much of this struggle on the home front by a process—a rather inadvertent process — of adopting measures of our own designing which progressively make over our system along collectivist lines. My concern is with what needs to be done to avoid losing our struggle with Russian communism in this unusually humiliating way.

Too Little Attention to Domestic Collectivism

If this limited approach needs justification I am sure I can provide it. Military operations are so dangerous and dramatic that they command almost universal attention and concern. The subversive activities of Communist agents have been well enough advertised so that we, or at least our government agents, have their potentialities more or less continuously in mind. But, so far as I can tell, very little systematic attention is being paid to the dull and undramatic possibility that we shall lose much of our struggle with Communist Russia right here on the home front by putting firmly in place collectivist arrangements conducive to the ultimate success of a Communist regime.

Let me hasten to assure you that I am not warming up for a rabble rousing contention that President Truman and his political co-workers are "a lot of Reds" who really want to convert the country to communism. I regard any such contention as completely pathological. But, in any event, I shall not be concerned at all with personalities or politics, as such, but with institutional arrangements which, on our home front, will go far to make or break us in our struggle with Communist Russia.

In order to talk with any clarity, let alone wisdom, about the economic future of our country it is necessary to make some assumption about the military outlook. That now dominates the domestic economic scene and, so far as I can tell, is likely to do so for a long time to come. Has World War III, with Russia, actually started? Or are we in for a long series of small wars (10% wars, someone has called them) around the edges of the Russian Empire, with continuous alarms of general war?

World War III Not Started

My assumption is that World War III has not started, at least as a continuous military operation, and will not start for a few years, at least. This assumption is based, in part, on my observation that at present we have a vast preponderance of industrial strength over the U. S. S. R. I am not unmindful that a single steel company with headquarters here in Pittsburgh produces more steel than is produced in the entire Russian Empire. I do not believe the Russians are, either. Also, it occurs to me that the Russians must be pleased with the progress they are making in their drive for world domination without engaging directly in any military adventures themselves. I should think they would hesitate a long time to cast off from a line which, for them, seems to be proving a very good thing. I shall revert to this point.

While I do not expect World War III to start right away, I also do not at any time in the foreseeable future envisage a return of anything resembling international peace and tranquillity. On the contrary, I anticipate that through her satellites Russia will seek to sap our strength progressively by small wars and alarums of great wars.

Our Sensible Response

I assume that our response to these efforts, and the only sensible response I think we can make, will be (1) a large and rapidly accelerated program of military preparation for a fight to the finish with Russia, if necessary; and (2) a large program of economic aid to our friends abroad, so long as we have some left upon which to bestow it.

When the shooting started in Korea our Federal Government was spending at an annual rate of about $17 billion for defense and foreign economic aid. The rate has now been stepped up to something like $20 billion per year. By the first anniversary of our Korean adventure the annual rate of expenditure promises to be somewhere between $25 billion and $30 billion. By the end of the year the official estimate is that it will be running at an annual rate of $45-55 billion. If I am correct in my assumption that World War III (as an all-out conflict with the U. S. S. R.) lies some years ahead of us, I would expect expenditures for the military and foreign aid to level off for a time at somewhere in the general range of $50-60 billion a year. Please note that all figures are in current prices. That is of major importance.

In the very nature of our foreign aid and defense program, most of what is produced for it will either be shipped abroad or blown up—a process (that is, the blowing up) which I also devoutly hope will continue to take place abroad. But the billions of dollars paid to producers of war goods remains in this country to be used in bidding for the supply of civilian goods or, in the lingo developed in Washington during World War II, to swell the inflationary gap.

Thus far our defense program has not gone fast enough or far enough to create a very large inflationary gap. But even so, we have already had what may properly be characterized as a tremendous price inflation. Since the shooting started in Korea wholesale prices have gone up more than 13%. As the inflationary gap widens, as it will rapidly in the months ahead, the inflationary pressure will be further magnified. Unless this pressure is successfully contained it can, of course, go far toward scuttling our traditional economic system. Violent inflation is deadly to fair competition upon which the successful operation of that system depends. If, however, the inflation is contained by cumbersome and oppressive regulations, which are maintained over a long period of time, the process of trying to check inflation can have the same general result. Thus, in our defense effort, we find ourselves between the devil of inflation and the deep blue sea (and I literally mean sea) of government controls designed to thwart it. How to escape relatively intact from that miserable position is a problem of staggering magnitude. It is that problem with which I am presently concerned.

Kremlin Not So Clever

I personally do not share what seems to be the widespread view that our Russian antagonists are diabolically clever fellows. I am supported in this skepticism by the fact that, in trying to play both ends against the middle, the Russians only seem to have succeeded in having most of World War II land right in their homeland, where in devastation and loss of life they were preeminent. Also I suspect that the final verdict will be that the attack on South Korea which they promoted was ill-conceived from the Russian point of view because it woke us up. However, those who think the Russians are extremely clever might find support for their view in the timing of the promotion of our great defense program, which the Russians touched off by the North Korean attack.

In terms of the inflationary problems which it precipitates, this program could scarcely be more inconveniently timed for us. It comes at a time when our economy is fully occupied with civilian business, and thus peculiarly susceptible to inflationary pressure. In this regard our position stands in notable contrast to that before World War II. As late as mid-1941 we had 6 million unemployed and a great deal of slack which could be taken up elsewhere before generating heavy inflationary pressure.

In this connection, it is, I believe, important to make a distinction between our technical capacity to carry out war production effectively, and the inflationary problems created by such production. Experts in production tell me, and I believe them, that at this time we are much better off technically to swing into a big war production program than we were before World War II. Our labor force is both bigger and better, and so is our industrial plant. But the problem of coping successfully with inflation is far more difficult than it was at the same juncture in our rush to prepare for World War II. Virtually full employment on civilian business makes it so.

The significance of the fact that we are piling a great defense program on an economy already quite fully employed with civilian business can be rather strikingly illustrated by reference to the problem of making satisfactory wage adjustments. During World War II, the real hourly wages of industrial workers went up about 15%. (Money rates increased about 30% while the cost of living increased only about half that much.) At the same time we were diverting a far larger share of our total national production to war-making than we now plan to divert in the years immediately ahead. If, however, a comparable increase in real wages were set as a proper standard for the next four years it would (1) either create a revolution, in the literal sense of the term, by largely eliminating the share of the national income going to owners, as rent, profits, return to farmers, etc., or (2) a more likely alternative, it would pour a lot of high test fuel on the fires of price inflation.

Concentration in Metals

The problem of coping effectively with inflation, as well as making a general orderly mobilization of our resources for defense, is also greatly complicated by the fact that military expenditures will be heavily concentrated in the field of metalworking. If we attain the annual rate of expenditure of about $50 billion a year for national security by the end of 1951, which is officially anticipated, somewhere in the neighborhood of $30 billion of it will be going for what is generally cataloged as military hardware. That ($30 billion) is about half of the entire present production of our metalworking industries. This production can be stepped up some. The steel industry, for example, is planning to expand its ingot producing capacity by something over 4 million tons by the end of this year, and there are possibilities of channeling more labor into the metalworking field. But there are also some very severe limitations on a rapid step-up in the metalworking industry. The severe shortage of copper (and a number of other non-ferrous metals) is one. Thus, when military requirements are added to high priority requirements for essential industrial plant expansion and spare parts, there may well be little or nothing in the metalworking line left for civilians by the end of the year.

In spite of the fact that acute shortage of metalworking production for civilian consumers (automobiles, appliances, etc.) is clearly in the offing, we face the paradoxical prospect of having some unemployment in this field. This prospect arises from sharp cutbacks of supplies of scarce metals so that they can be diverted to war production and war stockpiles. These cutbacks threaten to leave some makers of civilian products without the requisite materials to sustain production at a time when they still lack war orders. Any unemployment of this type promises to be quite temporary but its very existence will complicate the problem of creating general public understanding that we have an inflationary problem of tremendous proportions on our hands.

To have a chance of handling this problem with a tolerable degree of economic, let alone political, success it is necessary to bring Government controls designed to stem inflationary forces —a whole battery of them—into play. Otherwise, the inflation would be ruinously violent. Tax controls, credit controls, and controls by allocations and priorities all have a place in the struggle to hold inflation within tolerable limits. And while I am sure that most of those who urge them vastly underrate the enforcement difficulties involved, direct price and wage controls may also have some constructive place.

A Program of Controls

But to have a chance of being tolerably effective the program of controls must, it seems to me, meet two conditions, neither of which is now fulfilled. First, it must be built on a general design which, among other things, relies on slippery and complicated controls only after the more simple and effective controls have been fully exploited. Second, it must be tempered to the probability that we are going to be forced to live in an armory or arsenal state for many years—at least a decade and perhaps much longer.

Though less stressed than the first, this second shortcoming of our program of controls seems to me likely to prove the more deadly. Though not notably agreed on much else, our leaders seem to be unanimous in the view that, at best, we must be prepared to carry a heavy load of military expenditures for "years and years." That is General Marshall's phrase. But, in the line of controls, we are almost slavishly following the World War II model. That model was designed to meet the problems imposed by all-out war. For its effectiveness it relied heavily on compulsions of patriotism which this twilight zone between small war and something else clearly does not engender. And—of crucial importance—the World War II system of controls was, in the nature of all-out war, designed to minister to an economic convulsion of relatively short duration. Many of the World War II controls left relatively small scars on our economic system simply because they were applied only for a relatively short time. Kept intact for a decade they would have been devastating. Perhaps mention of the shambles to which gasoline rationing was reduced in its latter days, after having been quite effective during the touch-and-go days of the war, will suffice to make the point.

Brave Talk About Taxes

The lack of general design of controls which systematically exploits its more effective tools first can be illustrated by the case of taxation. There is general agreement among competent authorities on the subject that the only safe way to finance a defense program such as that we have ahead of us is primarily on a pay-as-you-go basis. Also there is substantial agreement that if the program is held to an annual expenditure of $50-$60 billion it is feasible to finance virtually all of it from current taxation.

In recent weeks there has been an increasing amount of brave talk about much heavier taxes, and increases spread over the entire body politic. Such a spreading would, of course, be necessary to increase the Federal tax revenues by any large amount. Perhaps something will come of this talk. I devoutly hope so because I share the view that the only hopeful fiscal approach to our defense problem, as at present formulated, is on a pay-as-you-go basis or at least a pay-most-of-it-as-you-go basis.

But, in contrast to the brave talk, we have a record of performance in taxing during this emer-

*An address by Dr. Keezer before Institute on Business and Economic Problems, Pittsburgh, Pa., Jan. 31, 1951.

gency. This record not merely suggests that our taxing policy will be too little and too late; it also suggests a positively subversive (in the literal sense of the term) bias so far as safeguarding of our traditional system of business enterprise is concerned. Here, of course, my primary reference is to the excess profits tax which was passed by overwhelming majorities at the last session of Congress.

In the present state of economic enlightenment in our country the political case for an excess profits tax is obviously overwhelming. The very name "*excess* profits tax" makes it an act of superlative political courage even to question it. Who in his right mind wants to be placed in the position of running on a platform of support of *excess* profits? It is hard enough politically to be suspected of sympathy for any profits at all. The moral appeal of an excess profits tax is also very powerful. With American boys dying in Korea, why should American industry have a chance to make increased profits out of the business of supplying them with weapons? In simple terms of equity there is no satisfactory answer, just as there is no satisfactory fulfillment of the ideal of spreading the sacrifices of war equally. What squares the account with the boys who came home from World War II, and now Korea, with no arms and legs? Nothing, obviously.

The Ominous Excess Profits Tax

The fact remains, however, that the excess profits tax is a potential wrecker of American industry. In addition to encouraging managerial waste and extravagance, it strikes at what in recent years has been the principal source of funds for new industrial plant and equipment, corporate profits. To be sure, the current rate of excess profits collection — 77% — is lower than the World War II rate. But if maintained for a decade, it has the potentiality of taking a deeply damaging bite of corporate funds required for an adequate program of investment in new industrial plant and equipment. The depth of the bite will, of course, increase as inflation increases. That gives it a much more ominous character than the initial calculation that the tax would take only $3.3 billion per year.

It will be remarked, of course, that our defense program need not suffer for want of corporate funds to finance suitable production facilities. The Federal government has not only made provision both for government loans to finance defense plants, but also for accelerated depreciation allowances on industrial plant and equipment put into place after certification that it is needed for defense production. It should be noted, however, that these arrangements give the Federal government decisive discretion in shaping a key part of the program of investment in industrial plant and equipment.

Thus it does not take either very much imagination or very much skepticism to envisage a development in which a squeeze on corporate profits on one side and an expansion of government control of investment in industrial plant and equipment on the other will act as a vise by which private direction of industry will be compressed. Over a few years such a development might be of relatively slight significance. But over the long pull, for which we are told we must be prepared to carry a greatly enlarged load of defense expenditure, it can be of major consequence. In this connection, I view with some dismay the enthusiasm with which most business leaders seem to me to contemplate a bountiful dispensation of government loans and certificates providing for accelerated depreciation. I am reasonably confident that it is another of those arrangements which is rather deceptive in its initial appearance of being a pleasantly soft touch.

The Lid of Price-Wage Control

Because we have not coped effectively with price inflation at its sources (through taxation and otherwise) we are now trying to put a lid on it in the form of direct price and wage control. Of course, credit control also has an important role to play in stemming inflation, and I think the Federal Reserve Board is entitled to a bow for making a relatively brave effort to activate that role. But it is, I believe, a role quite secondary to taxation, so far as effectiveness is concerned, and a secondary role to direct wage and price control, so far as political impact is concerned. At any rate there is no chance to explore it

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Managing the National Debt

By THOMAS I. PARKINSON*
President, The Equitable Life Assurance Society of U. S.

Claiming Federal debt has not been managed at all, but allowed to drift, Mr. Parkinson urges Treasury to refund some of its short-term maturities into long-term obligations. Says at least $4 billion of new 3%, 35-year bank ineligible bonds could be placed annually with life insurance companies, savings banks and private trusts.

In the current discussion of inflation there is frequent use of the phrase "management of the debt." Like other phases glibly tossed about in public discussion, it means only what its user wants it to mean.

T. I. Parkinson

The simple truth is the debt has not been "managed" at all. It has simply been allowed to drift. The only control exercised by either the Treasury or the Federal Reserve Board has been (1) pegging of the price of the marketable portion of the debt and (2) the maintenance of a large and increasing money supply, both of which were politically popular because they avoided temporarily the pains of deflation.

The large cash balance in the Treasury in the middle of 1946—resulting from the excess sale of Victory Bonds in December of 1945—and large amounts taken by the Treasury from the Social Security and like funds, and the sale of "E" and other savings bonds, enabled the Treasury to retire $25 billion of bonds maturing or redeemable between 1946 and the end of 1950. This operation reduced the net debt from $269 billion in the middle of 1946 to $256 billion at the end of 1950. But while the long-term marketable debt was being reduced the short-term debt and the special obligations sold to the Social Security and like funds and the "E" and other savings bonds were being increased. To put it more simply, the short-term debt was increasing.

Indeed, during the whole period the Treasury issued no long-term paper to meet any of its maturities or other needs. The result was that in addition to the "E" and other savings obligations, all of which are due on demand, the Treasury faces maturities during the calendar year of 1951 of nearly $40 billion and an additional $12 billion of callable bonds. If the easy-going "management" of the past few years is continued, all of this $52 billion will turn up at the end of the year in short-term obligations.

When will there be a better time than during the past few years to refund into longer maturities this vast short-term debt? If there had been any "management" of the debt, not even to say intelligent management, some part of this debt could and would have been turned into longer term obligations. That's what every private business did with its debt during the same period if it could, and that's what all fundamental principles of public finance have long required as essential to soundness.

Now it is almost a "must" that the Treasury fund some of its short-term maturities into long-term obligations. It has been suggested that 'defense bonds" should be issued having a maturity of 35 years and an interest coupon of 3%; that such bonds be ineligible for commercial banks; and that they be sold to non-bank investors. At least $4 billion or $5 billion of such bonds could be placed annually with the life insurance companies, savings banks and private trusts.

The result would be gradually to ease the Treasury's burden of financing recurring maturities, but a far greater result would be the restoration of confidence in future financial, fiscal and monetary conditions which would follow such investment of the people's savings by their thrift institutions and trustees.

It is true that such refinancing of the short-term low rate paper with long-term 3% paper would increase the cost to the Treasury of its borrowings, but that increase in cost would be minor compared with the advantages not only to the public welfare but to the Treasury itself. If the Treasury had, during each of the last five years, refinanced $5 billion of its maturing short-term paper with a 3% long-term bond, it would have put $25 billion of that short-term paper on the shelf, so to speak; and the additional cost in interest payable by the Treasury on that $25 billion would be approximately $500 million.

The Secretary of the Treasury has frequently emphasized this added cost to the Treasury of long-term bonds and has justified the continuance of short-term financing by the economy of its lower rate: but that lower rate is chiefly due to the fact that the short-term paper is sold to the commercial banks; and their holdings of Government obligations continue to inflate the money supply and to decrease the purchasing value of the dollar. Let nobody be deceived. The money supply in this country is now $177 billion; it was $152 billion at the end of 1945; it was $170 billion one year ago. This increase is the result of the Treasury's "management" and particularly of its persistence in short-term financing, and the result of this large money supply is a decreasing purchasing value of the dollar resulting in increased costs to all of us including the Treasury.

Let us be specific. In the budget for the pending fiscal year there is provision for the purchase of about $20 billion of supplies and armament and in the proposed budget for the next fiscal year there is provision for similar purchase of about $40 billion. The estimated cost of these supplies during each of these fiscal years will be $15 billion more than they would have cost in 1940. The Treasury has brought a high cost of living down upon all of us including itself by its effort to obtain low cost borrowed money. What is $500 million savings in interest on its bonds compared with $15 billion of extra cost in its purchases? That's what "management of the debt" has done up to date.

*A statement by Mr. Parkinson distributed by the Continental Press Syndicate, Brightwaters, N. Y.

Francis Frost to Be Shields Co. Partner

LOS ANGELES, Calif.—Francis D. Frost, Jr., will be admitted to partnership in the New York Stock Exchange firm of Shields & Co. on March 1. Mr. Frost is resident manager of the firm's office at 510 West Sixth Street.

THEN AND NOW

Guess Who?

If You Can't, Turn to Page 29

(A)

(B)

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Let Us Not Lose the War On the Home Front

here without extending our discussion to inordinate length.

With a surging inflation on our hands, it is more or less inevitable that we should turn to direct price control and hence direct wage control, without which price control becomes a particularly destructive form of class legislation. But, unlike many people, I would expect these direct controls to result in something only slightly less than the shambles which might be expected without them. I am a veteran of both the OPA and the National War Labor Board. As such I have some awareness of the hellish difficulties of making price and wage control work well even when it had the support of the fear and patriotism engendered by all-out war. Now, when we have neither, I am no less than amazed by the large number of people who applaud the idea of general price and wage ceilings. I am led to wonder whether some of the elders among these were so full of bootleg grog that the experience of national prohibition was lost on them.

There are some areas, of course, where price control can be expected to work tolerably well. Broadly speaking they are those areas where prices are, in the initial instance, administered by large concerns, instead of being responsive from day to day changes in the market. Steel prices, automobile prices, cigarette prices, for example, fall in this general category. But is it precisely in these areas where price control is least needed because of the restraint normally exercised in setting prices. If it appears that in this general area there is likely to be absence of restraint in setting prices, a method of dealing with it was suggested to me the other day by a World War II price controller. He remarked that in the early days of price control the price of pig iron was held down pretty effectively by keeping the heads of the companies producing it so fully occupied with conferences that they could never get enough time off to arrange to raise their prices.

Neither that technique nor any other can be expected to work well in markets for food and clothing which are extremely diverse and volatile. And, as you know, the cost of food and clothing constitutes almost two-thirds of the typical wage earner's cost of living. If, as seems highly probable, control of food and clothing prices is extremely loose, these prices will, of course, exert irresistible upward pressure on wage rates and hence industrial costs. If, in the meantime, the prices of industrial products are rather tightly controlled, as they can be, the end result may be a squeeze on profits and the capacity to purchase new plant and equipment which will further speed the process of government financing and hence control of industrial expansion.

In spite of all these aches and pains of direct price control, and innumerable others which there is no time to mention, I see no way to avoid trying it—as a temporary expedient. As major reasons why we have reached a wretched pass, I would assign both failure to adopt an adequate program of taxation, and the vast outpouring in Washington about the imminence of price control. Each new threat of a price freeze has hatched a new crop of price and wage increases to get into a relatively comfortable position to meet it.

Necessary Conditions

Perhaps what seems to me to be the extreme gullibility of much of our population about the probable effectiveness of direct price control will prove a national asset of an odd sort. It may temporarily create the illusion that it is working and thus check a rush to convert dollars into goods which in recent weeks has reached something approaching runaway proportions. But if the resort to direct price control on any considerable scale is not going to prove an economic curse in disguise I submit it must be surrounded by the following conditions:

(1) A tax program which will close most of the inflationary gap now being opened by the defense production program.

(2) A wage fixing program tightly enough constructed to prevent the lid being blown off the price control program by increased labor costs.

(3) Definite time limits on and specific arrangements for independent review of all direct price control arrangements.

(4) Plans for increased production which are built right into the administrative structure of emergency controls, including price controls.

I think what I have already said covers the point about taxation. We have worked ourselves into the spot where we have got the cart of direct price controls ahead of the horse of taxation. That's bad. But it will be worse unless we follow up by nourishing the horse with an essentially pay-as-you-go program of taxation.

As I have already indicated, the crucial importance of effective wage control as a companion piece for effective price control is obscured by our World War II experience. It is apparently also obscured somewhat by the legislative direction to "stabilize" wages, presumably as opposed to fixing them. It has been noted by some of those officially involved in the undertaking to "stabilize" wages that it is quite possible to have a completely stable wage spiral. It keeps on going up with no wobbling at all from side to side.

The importance of having definite time limits on provisions for direct controls seems to me to be underlined both by the nature of the emergency by which we are confronted, and our experience in casting off from World War II price controls. The emergency, we are told, may last 10, 15, 20 years. If a system of government price controls, and what it can be confidently expected to be a very messy one, should survive along with the emergency it would, I am confident, go most of the way to plow under our traditional enterprise system. Capacity to make the kind of judgments which must be made to run that system would be almost completely corroded. The government would be doing most of the job.

At the same time, experience of recent memory would greatly retard a political decision to cast off from price controls even if the economics of the case were to indicate that such action was long overdue. This is, in large part, the fault of certain business leaders. In seeking to hasten the end of OPA price control they gave assurances that this would at most mean no more than a temporary rise in prices which would be quickly obliterated by increased production. The assurances proved false. Neither those who, for subversive reasons, would like to keep us tangled up in price control indefinitely, or those whose professional careers depend on the continuation of price control are going to let that historical fact be forgotten.

In this connection, probably the best informal way to prevent controls from outliving their usefulness is to have people who have left other and much more inviting jobs administer them. That means, in part, having the business community cooperate vigorously in staffing the control agencies. But Washington is a beguiling place. In a season I have seen highly individualistic businessmen converted into ardent advocates of national regulation of almost everything.

So the only relatively safe way to prevent the controls now being put in place from becoming chronic is to have time limits set when they are imposed, with the provision of a careful independent review as a pre-requisite for extension—again for a fixed period with another independent review.

I am aware, of course, that the "Defense Production Act of 1950," under which price and wage control is being instituted is itself an act of limited duration and must come up for renewal before long. However, the considerations involved in deciding about a general renewal are bound to be very general. A time limit for the act as a whole, or major sections of it, is no substitute for time limits on specific control arrangements such as those governing various kinds of prices and wages.

By far the most important safeguard against having our traditional economic system controlled out of existence during this emergency is to have plans for increased production built right into the administrative structure of controls. We have, of course, enormous potentialities to ease the shortage problems to which both direct and indirect controls are addressed by increased production. They vary from industry to industry, and unhappily are peculiarly limited in some fields of non-ferrous metals production where the shortages are particularly acute. But if we put our minds and backs to it, we can over a series of years go a long way toward eliminating the need for controls by means of more and better production. Here is a sample, a small sample, of some of the possibilities envisaged by the editors of McGraw-Hill technical magazines. The editors of "Factory" estimate that general use of modern equipment would save over 650,000 man years of unnecessary labor in materials handling. The editors of "Textile World" estimate that output per man hour could be increased by at least 20% by use of modern equipment and modern managerial methods. Studies made by the Editors of "Food Industries" indicate that a similar increase could be made in their field in the same way. If antique machine tools were eliminated from the metalworking industry the editors of "American Machinist" calculate that the output of our metalworking industries could be increased by more than 10% without adding anything to the amount of labor involved. Similar possibilities run right through American industry, and add up to an enormous potentiality to solve our shortage problems in what, in the last analysis, is the only constructive way.

More and Better Production!

To be sure, in order to provide all the necessary equipment it would be necessary to make an added draft on scarce materials which might temporarily complicate shortages of them. It is equally obvious that the potentialities for salvation by increased production cannot be realized overnight. But we are given every assurance that this defense effort is no overnight affair. Over the long pull ahead the potentialities for salvation by more and better production can become realities if we concentrate on having it so.

In my judgment, however, we are not likely to get such concentration unless the controllers are directed to make increased production a continuous standard of effective performance on their part. The whole sweep of history seems to demonstrate that running other people and their business is a very engaging activity which also usually ends up by being quite attractive, too. Hence, I doubt if the potentialities of increased production to eliminate the necessities of controls will get the attention it deserves from the people running the controls unless they are under formal pressure to provide it. This, it occurs to me, could be provided by making, say, the price control agency give a periodic demonstration to an independent agency of review that its rules are doing everything possible to promote the increased production that would eliminate the necessity for the rules. At least, that would add an intellectual dimension to price control without which it may well subject our traditional enterprise to slow strangulation.

The lifeblood of that system, which also gives it its social justification, is fair competition. The system of controls now being put in place in Washington is the deadly enemy of a fairly competitive system. In general I accept the necessity of the controls. But if they are left in place for the protracted defense emergency which our leaders tell us we must be prepared to face, I am confident that we shall never be able to return to anything remotely resembling our traditional and brilliantly successful system of competitive enterprise. In fact, I think we shall have moved so far in the direction of the collectivist system favored by the Russian Communists that they will have scored a major triumph for their cause on our home front. I would like very much to thwart them in this sector, as elsewhere. If this discussion has contributed something to that end it will have served its purpose.

NYSE Nominat'g Comm. To Receive Suggestions

The Nominating Committee of the New York Stock Exchange will hold an open meeting at 3:15 p.m. March 6 in the Board of Governors' Room on the sixth floor of the Exchange for the purpose of receiving suggestions for the positions to be filled at the annual election scheduled for May 14. Those unable to attend the meeting may make suggestions either by letter or personal appearance at meetings of the Committee scheduled for March 8, 12, 15 and 21. Appointments may be arranged through Edwin B. Peterson, Secretary of the Exchange.

Positions to be filled are Chairman of the Board of Governors; nine Governors; two Trustees of the Gratuity Fund, and nine members of the Nominating Committee.

Members of the 1951 Nominating Committee are Robert B. Berman, Chairman; Walter F. Blaine, Goldman, Sachs & Co., Secretary; William J. Denman, Shearson, Hammill & Co.; Bayard Dominick, II, Dominick & Dominick; John C. Henderson, Chas. F. Henderson & Sons; Emil J. Roth, E. J. Roth & Co.; James G. Tremaine, Gude, Winmill & Co.; George H. Walker, Jr., G. H. Walker & Co.; and Charles H. Wisner, Wisner & DeClairville.

Boston Securities Traders Association

Burt Whitcomb, *Harriman Ripley & Co., Incorporated*, Boston; Wilfred B. Perham, *Coburn & Middlebrook, Incorporated*, Boston; Arthur E. Engdahl, *Goldman, Sachs & Co.*, Boston

Jim Duffy, *Paine, Webber, Jackson & Curtis;* Frank Breen, *Schirmer, Atherton & Co.;* Walter Saunders, *Dominion Securities Corporation*, New York City

Henry Tabb, *Townsend, Dabney & Tyson;* Leo Newman, *J. Arthur Warner & Co.*, Boston; Curtis Bates, *Draper, Sears & Co.*

Calvin Clayton, *Clayton Securities Corp.;* Hal Murphy, *The Commercial & Financial Chronicle*, New York City

John D'Arcy, *F. L. Putnam & Co., Inc.;* Al Moore, *J. Arthur Warner & Co., Inc.;* Tim Murphy, *Chace, Whiteside, Warren & Sears, Inc.*

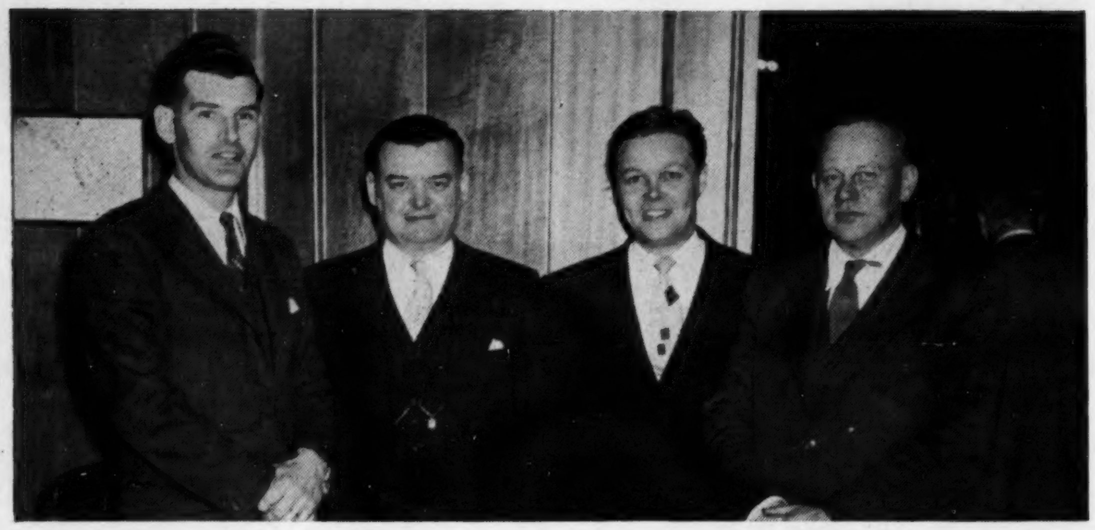
Gordon Hanlon, *Gordon B. Hanlon & Co.;* Jack Shea, *Shea & Company;* Fred Harson, *Fraser, Phelps & Co.*, Providence, R. I.; A. G. Woglom, *A. G. Woglom & Co., Inc.*

Roland Wetherbee, *Kidder, Peabody & Co.;* Walter Swift, *Kidder, Peabody & Co.;* Fred Carr, *Tucker, Anthony & Co.;* Cliff Barrus, *Barrett & Company*, Providence, R. I.

Lowell Warren, *First Boston Corp.;* Alfred Zuccaro, *First Boston Corp.;* Joe Rinaldi, *Lerner & Co.;* Bill Carey, *Albert H. Weck Co.*, New York City

Jim McCormick, *A. C. Allyn & Co.*, Boston; Russell Dean, *Mixter & Company;* Bob Ingalls, *Tucker, Anthony & Co.;* Ray Murray, *Tucker, Anthony & Co.*

Twenty-seventh Annual Dinner



J. Russell Potter, *Arthur W. Wood Company;* Walter Bradley, *B. W. Pizzini & Co., Inc.;* New York City; Rodney Kent, *J. Arthur Warner & Co., Inc.;* W. Henry Lahti, *Matthew Lahti & Co., Inc.*

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Held February 9th, at the Parker House

Harry Crockett, *Coffin & Burr, Incorporated;* Robert Weeks, Jr., *Coffin & Burr, Incorporated;* Jim Lynch, *Shea & Company;* John Gilbert, *H. P. Wood & Co.*

Francis R. Cogghill, *White, Weld & Co.*, Boston; Bert F. Burbank, *White, Weld & Co.*, New York City; Preston Bacon, *White, Weld & Co.*, New York City; Harry R. Walker, *White, Weld & Co.*, Boston

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John Dougherty, *Asiel & Co.*, New York City; George Payson, *H. M. Payson & Co.*, Portland, Maine; Peter Burnett, *G. H. Walker & Co.*, Providence, R. I.

Irv Maxfield, *Cohu & Co.*, New York City; Tom O'Rourke, *Stroud & Company, Inc.*, Philadelphia; Carl K. Ross, *Carl K. Ross & Co., Inc.*, Portland, Maine

Speed Hughes, *J. Arthur Warner & Co., Inc.;* Frank Mulligan, *Joseph McManus & Co.*, New York City; Bill Lippman, *Akin-Lambert Co., Inc.*, Los Angeles; Les Barbier, *G. A. Saxton & Co., Inc.*, New York City

Arthur Murphy, *A. C. Allyn and Company, Inc.;* Commissioner Richard McEntire, *Securities and Exchange Commission*, Washington, D. C.; Philip E. Kendrick, Regional Administrator, *Securities & Exchange Commission*, Boston; Commissioner Paul R. Rowen, *Securities & Exchange Commission*, Washington, D. C.

Record Attendance by Members and Guests

Jim Duffy, *Paine, Webber, Jackson & Curtis;* Bill Burke, *May & Gannon, Inc.;* Ed Lawrence, *Minot, Kendall & Co., Inc.;* Frank Breen, *Schirmer, Atherton & Co.*

John Maguire, *May & Gannon, Inc.;* Warren Donovan, *Dayton Haigney & Co., Inc.;* Jim Jones, *Courts & Co.,* New York City; James B. Maguire, *J. B. Maguire & Co., Inc.*

"Duke" Hunter, *Hunter & Co.,* New York City; Walter J. Connolly, Jr., *Walter J. Connolly & Co., Inc.;* Wilfred Conary, *J. Arthur Warner & Co., Inc.*

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Lou Walker, *National Quotation Bureau,* New York City; John Hudson, Thayer, Baker & Co., Philadelphia; P. Fred Fox, *P. F. Fox & Co.,* New York City

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Ed Hines, *Perrin, West & Winslow, Inc.;* Ralph Dimpel, *Seligman, Lubetkin & Co.,* New York City

Sam Gronick, *Garfield & Co.,* New York City; Richard Barnes, *A. M. Kidder & Co.,* New York City; Ralph Dimpel, *Seligman, Lubetkin & Co.,* New York City; John Tirrell, *Star Printing Co.,* Boston; Jack Donnelly, *Salomon Bros. & Hutzler,* Boston

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Federal Reserve Should Exercise Its Statutory Powers

By JAMES C. MORRISON*
Vice-President, First Boston Corporation

Mr. Morrison reviews controversy between Treasury and Federal Reserve, and contends the best answer to problem of maintaining fixed interest rates, while avoiding inflation, is to allow Federal Reserve System to exercise its statutory powers over money market. Says this would increase public confidence in government securities, while higher interest rates would lead to more investment of savings in government bonds. Says flexibility in interest rates might avert necessity of Federal Reserve purchasing bonds from investment institutions.

In the years I have been in the government bond business, there never was a time when more confusion confronted the market crystal gazers than faces them today. You picked a timely subject but you have given me a very difficult assignment. The confusion arises from the running conflict between the Treasury Department and the Federal Reserve System in the matters of the philosophy and economics of debt management and credit control. As late as last week there was sparring between these two fiscal bodies and no one can predict today whose theories will prevail. On the outcome will depend the future behavior of the government market.

What are these two conflicting theories? The Treasury Department's opinion is that the present pattern of interest rates should be frozen in order to permit the government to borrow and refund during the emergency at existing levels. The Federal Reserve System, on the other hand, advocates flexible rates so that it would not be forced to support the government bond market at fixed prices.

Immediately after the outbreak in Korea, the Board let it be known that they believed it impossible to superimpose a heavy defense program upon an already inflated peacetime economy without causing a run-away inflation, unless proper controls were placed upon bank credit and the money supply. In order to curb the expansion of bank credit and the money supply, they applied such credit measures as were within their statutory powers. Through its open market operations, the Federal forced a change in the one year Treasury rate to a level about ¼% higher. This was to be reflected in higher rates for all types of borrowing. They also have increased margin and reserve requirements and have imposed restrictions on mortgage credit and consumer credit.

Actually the change of ¼ of 1% in short-term rates has had little effect in stopping the expansion of bank credit and the money supply. The reason is that the area in which the Reserve System has been forced to operate is too limited to be effective. Ever since World War II the Reserve System has continued to support long-term 2½% bonds above par whenever the pressure of selling threatened that level. As long as it maintains a support of long-term bonds at the 2½% rate, the amount of increase that can take place in the short-term rate is limited. Unless the movement of rates can be such that price declines create losses in outstanding securities sufficient to discourage prospective lenders from selling such securities in order to make loans, or unless the rate is raised sufficiently to discourage the borrower, a change in interest rates is not effective.

At the same time that the Board was attempting, by means of a change in short-term rates, to limit the amount of inflationary loans, it was forced to buy long-term bonds from insurance companies, savings banks, and others at their support prices. Whenever these institutions sold government bonds to the Federal Reserve System in order to take up other investments, additional money was pumped into the credit stream. Simultaneously, the rapid expansion of commercial bank loans caused selling by the commercial banks to the Reserve System.

The point of view of the Federal Reserve may be summarized by the following quotations from Governor Eccles' testimony before the Joint Committee on the Economic Report in January:

"To prevent inflation we must stop the overall growth in credit and the money supply whether it be for financing government or private deficit spending. The supply of money must be controlled at the source of its creation, which is the banking system.

"Under our present powers the only way to do this is by denying banks access to Federal Reserve funds which provide the basis for a six-fold expansion in our money supply. The one way to stop access to Federal Reserve funds is by withdrawing Federal Reserve support from the government securities market, and penalizing borrowing by the member banks from the Federal Reserve System.

"As long as the Federal Reserve is required to buy government securities at the will of the market for the purpose of defending a fixed pattern of interest rates established by the Treasury, it must stand ready to create new bank reserves in unlimited amounts.

"This policy makes the entire banking system, through the action of the Federal Reserve System, an engine of inflation."

Treasury's Policy

On the other side of the fence the Treasury Department, since the beginning of World War II, has favored a policy of low interest rates and it appears to be their present intention to continue to finance at these low rates in spite of the possible effect upon our economy. The Secretary of the Treasury recently stated that it would be politically impossible to ask for an additional $1.5 billion for higher interest rates at a time when huge appropriations are needed for the defense program and when economies in the budget are essential.

The present debt of the Treasury is approximately $260 billion. The figure of $1½ billion used by the Secretary is a little over ½% increase on the entire debt. However it should be noted that our debt matures over the next 22 years. Thus it would only be after refunding the entire debt over this period of time that the additional interest cost would reach his figure of $1½ billion.

Using his figure of ½% over the next several years, let's see what it would actually cost. This year there are $41.8 billion U. S. Treasury public marketable securities which will mature and will have to be refunded. There are also $12 billion of securities which the Treasury has the option of calling. Naturally, unless the Treasury can refund these securities at a lower rate, they will not be called. So in 1951 we are only concerned with fixed maturities. A ½% increase on the $41.8 billion of fixed maturities would amount to $209 million. In 1952, there are no fixed maturities but there are $17 billion bonds callable. There again the Treasury will not exercise its option to refund the callable issues unless there is an interest saving. So there would be no increase in debt service in 1952. Again, in 1953, there are no fixed maturities. However, if $9.1 billion securities which were callable in 1951 are not refunded in 1951 or 1952 at an interest saving they will mature in 1953. So to be on the safe side let's assume they were allowed to mature and add ½% to that amount. That would be an additional $46 million. So the total increase in the cost of debt service at the end of three years would be $255 million on the public marketable portion of the debt. If the total amount of the Treasury special issues and of all the savings bonds and notes which are redeemable on demand but mature over the next 12 years were also refunded at a ½% higher rate, the additional amount would be approximately $510 million per year. This is, of course, an unlikely development.

Even if the cost is about $500 million, it would appear to be a relatively cheap price to pay if it helps prevent an inflation which could cost all of us billions of dollars in higher living costs. In addition, a further price inflation would increase the cost of the defense program by billions of dollars.

The Secretary has stated that the portfolios of the nation's banks and insurance companies are adjusted to a maximum long-term 2½% rate and that problems relating even to the solvency of such institutions might arise from any substantial price decline in fixed income securities resulting from a rise in the interest level. Now, no one has suggested that the support of long-term bonds should be completely withdrawn. The market still could be supported at a price which would not affect the solvency of any of our institutions, but at the same time would create sufficient losses in securities portfolios to retard selling and thereby slow up the amount of new credit being made available. At the same time, other rates would rise sufficiently to deter some of the marginal borrowers. It isn't necessary to stop all selling of government securities for the purpose of obtaining funds to make additional loans. However, it is necessary to bring into balance the demand for credit and the supply of money.

The Secretary recently struck out at critics of Treasury policy "who would have the government make it possible for the banks to make even bigger profits at a time when industry, business and labor is asked to forego part of the profits they would realize from the defense mobilization."

Naturally, higher interest rates tend to add to bank earnings. However, the Federal Reserve Board recently increased reserve requirements by 2%, and member banks now have approximately 20% of their deposits tied up in required reserves at the Federal Reserve Banks and on which they receive no return. It is possible that Congress may permit the Federal to sterilize additional deposits through the process of raising reserve requirements to even higher levels. If requirements are upped there would be a further offset to interest earnings. During inflationary periods higher interest rates and higher reserve requirements go hand in hand in the fight to control additions to the money stream. Actually, when the amount of earnings assets of a bank is reduced by higher reserve requirements the effect is to apply an additional tax against the banking system to fight inflation, a sacrifice not required of industry, business, or labor.

Because the conflict in the philosophy of debt management between the Federal Reserve Board and the Treasury was being prominently aired in the press, the President recently called the Reserve Board and members of the Open Market Committee to the White House. He asked for their cooperation in maintaining confidence in the government's credit during the emergency. After the meeting, a White House press release and a statement issued by a Treasury spokesman indicated that the Federal Reserve Board had consented to support the Treasury's policy of debt management and had agreed to maintain the price of government securities at the present price level.

This was soon disputed by Governor Eccles, who stated that he was astonished at the President's statement. At the same time, he released the Board's memorandum of the meeting with the President. In the memorandum, no mention was made of supporting prices at any given level and, in fact, no reference was made to interest rates at all.

Question Still to Be Resolved

The question of whether we will have the fixed pattern of rates desired by the Treasury, or the more or less flexible pattern desired by the Federal Reserve Board is still to be resolved.

Whether the Board will relinquish its authority and abide by the Treasury's wishes because of pressure from the administration remains to be seen. The Reserve Board was created by Congress as an independent agency and it is charged with the responsibility, among others, of maintaining an adequate monetary and credit policy. In my opinion, the conflict between our fiscal authorities should be reviewed immediately by Congress and they should decide who is to have the final word in determining our monetary policies. It is interesting to see that prominent members of Congress like Senator Douglas of Illinois believe that the Federal Reserve Board should make the final decisions.

If either through Presidential pressure or lack of action by Congress the Treasury's policy is to prevail, let us see if we could maintain a low interest rate pattern without further inflationary damage in our economy. I believe it could be done under the following conditions: First, balance the budget. The present estimate is that the cash budget for the current fiscal year ending June 30th will be in balance and that no deficit financing will be required before then. The budget as proposed by the President for the fiscal year 1951-52 calls for expenditures of $71½ billion, with receipts estimated at $55 billion, leaving a deficit of $16½ billion. The cash deficit will be reduced to approximately $13 billion by the surplus in Treasury Trust accounts.

There could be a substantial saving through cuts in non-defense spending. Elimination of unnecessary projects and curtailment of others would carry us much further toward a balanced budget. The taxpayer is willing to make whatever sacrifices are necessary to meet the heavy demands for defense. In return, he should expect the curtailment, as far as possible, of items unnecessary to the defense program. Between $4 and $6 billion could be pared from the budget if an honest effort is made by Congress. This would leave us with a deficit of between $7 and $9 billion. The President has already asked for an additional $10 billion in taxes and has indicated he will later ask for an additional $6½ billion. It is improbable that the President will obtain the full amount of taxes he has requested. Nevertheless, through a combination of higher taxes and a curtailment of unnecessary expenditures the budget can be balanced so that we should not be faced with the inflation of bank credit through deficit financing.

Secondly, the controls over wages and prices must be rigidly maintained. However, it is disturbing to note that the controls recently announced have already been weakened by a growing list of exceptions.

Thirdly, if the demands for credit upon the banking system and non-banking institutions continue at the present rate, tighter restrictions on building, non-essential plant expansion, and increasing inventories must be applied.

Under such a program we probably could maintain the present level of interest rates. But if the Reserve Board were to be permitted to follow a policy of flexibility in interest rates to a degree sufficient to avert the necessity of its purchasing government bonds on balance from investing institutions, the essential controls would not have to be as drastic as under a fixed pattern. In either event the budget must be balanced.

While we could live within a rigid rate pattern if the proper controls were applied, I am doubtful if the controls would be applied to the extent required. Besides, why place a strait-jacket on the economy if it is not necessary?

The problem has been created largely by the addition to the money supply of $3½ billion in Federal Reserve credit since August traceable to its purchases of government bonds from institutions. The problem today is how to prevent further additions to the money supply, or to put it another way, how to eliminate the cause of this increase.

Federal Reserve Should Exercise Statutory Powers

I strongly feel that the best answer lies in allowing the Federal Reserve System to exercise its statutory powers. Specifically, the Board should be permitted to follow a policy of flexibility in interest rates. This could involve the lowering of the price level to retard the selling of government bonds to the Reserve System. I believe this could be accomplished at a point not far from present levels and without affecting the solvency of our institutions or destroying public confidence in U. S. Government Securities.

In fact, I believe that direct action along these lines would have the added result of increasing public confidence in government securities. It is important to siphon as much purchasing power as possible from the public in the form of savings. The savings will not be invested freely in Government bonds unless the individual purchaser feels that for every dollar put in he will receive from the government at a later date a dollar representing the same purchasing power plus his interest.

*An address by Mr. Morrison before the Association of American Railways, New York City, Feb. 14, 1951.

Named Directors

Announcement has been made by F. G. Kingsley, Chairman of the Board of Mercantile Stores Company, Inc. of the election of four new directors: Robert B. Whitney of J. P. Morgan & Company Inc., Gerrish H. Milliken, Jr. of Deering, Milliken & Company, Inc., Morgan A. Casey, Treasurer of Mercantile Stores Company, Inc. and A. D. Churbuck, a Vice - President of Mercantile Stores Company, Inc.

The Creators

I honor the man who refuses to shirk
And isn't ashamed to take pride in his work!
Whether washing a window or scrubbing a floor,
Or revamping an industry to produce ever more,
Be exalted his station or humble his lot,
If he gives to his job the best he has got
He deserves from us all our sincere admiration—
He's the source of our wealth, and the strength
of our nation.

—William Garfield Lightbowne

Sees Independent Banking Threatened

Carl K. Dellmuth, Secretary of Pennsylvania Bankers Association, warns if present trend of government interference continues, most bank operations in the future will become absolutely uniform by law.

In his concluding remarks to the Bank Operations Clinic of the Pennsylvania Bankers Association, held at the University of Pennsylvania in Philadelphia on Feb. 1 and Feb. 2, Carl K. Dellmuth, the Secretary of the Association, warned of the threat to independent banking arising from the trend in recent years of government domination of bank operations.

Carl K. Dellmuth

"More than once the thought may have occurred to each of us," Mr. Dellmuth remarked, "that the easiest way to simplify bank operations is to surrender our last vestige of independence and yield to the temptation of having the government make all of our banking decisions from one central point. The idea is only fantastic in the sense that it hasn't happened to us—as yet.

"One must admit, however, that American banking, during the last three and a half decades, has felt the weight of government control to a degree not experienced during the entire previous history of this country. If the present trend continues it can be predicted with some accuracy that most bank operations in the future will become absolutely uniform by law. In that event we won't have to worry about this type of clinic because centrally conceived directives will provide the formulae for most of our activities. Likewise bankers associations, for want of a purpose, can very easily pass out of existence.

"To the foregoing I would like to add this footnote. There seems to be universal agreement that government is dominating our banking lives at an ever increasing rate. Implied in this point of view is the feeling among bankers that government is taking something from us. While this may be fractionally true is it not the part of wisdom to ask whether the status quo has resulted from a *taking* of additional powers by government or because of an *abdication* of these same powers by independent banking?

"Whatever the answer may be, it becomes abundantly clear that unless we stem the tide of forces now bearing down on what's left of the independent banking system in America, we must prepare ourselves for that inevitable day when all banks in this country will be operated by government rather than by private initiative.

"It is because we believe in individual freedom of expression, and in the superior quality of private, independent banking over other concepts, that we in the Pennsylvania Bankers Association are dedicating ourselves to the complete rejection of any endeavor which may weaken us from within, or attack us from without.

"The job will not be easy. To reach our objectives it will take collective action involving careful thought, determined action and the utmost of team work.

"Nevertheless, we face the future firm in the belief that independent banking is best suited to the traditional American pattern of living. This conviction must provide the incentive for seeing to it that banking will be carried on within the framework of the kind of private, competitive economy which has made America the most productive nation in world history. In the judgment of many, *this challenge represents the most pressing bank operations problem of all.*"

Halsey, Stuart Group Offers So. California Edison Co. 2⅞% Bds.

Halsey, Stuart & Co. Inc. yesterday (Feb. 21) offered $35,000,000 Southern California Edison Co. 2⅞% first and refunding mortgage bonds, series C, due 1976, at 101.34% and accrued interest. The group was awarded the bonds at competitive bidding, naming a price of 100.859999%.

Proceeds from the sale of the bonds will be used, in part, in the company's extensive expansion program made necessary by the substantial growth of its business, and in part to retire bank loan notes issued in connection with the expansion program.

The bonds will be redeemable at the option of the company at prices ranging from 104.34%, through Feb. 14, 1952, to 100%.

Southern California Edison Co. provides electricity to an estimated population of 2,800,000 in portions of Central California and in Southern California, principally in Los Angeles County. Among the larger cities served are Long Beach, Santa Monica and San Bernardino.

With Francis I. du Pont

(Special to THE FINANCIAL CHRONICLE)

HOLLYWOOD, Fla.—Raymond A. Wilcox is now associated with Francis I. du Pont & Co., Hollywood Beach Hotel.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Although the struggle for the control of the money markets seems to have abated slightly, that is "open mouthwise," there is no apparent solution of these differences yet in the wind. This means the government market, which is the important pawn in the game, is still being affected by these indecisions. This makes for indecisive price movements on not important volume. It is not entirely a professional affair because investors have been appearing on both sides of the market in the taps as well as the eligibles. The defensive dribbling down-tone is due to the appearance again of large non-bank investors as sellers of Treasury obligations. Federal has been and still seems to be a selective and somewhat reluctant taker of the issues which these institutions are getting rid of. On the other hand, not a few of these bonds have found homes in pension funds and trust funds.

There have been no real market leaders because there is no definite trend discernible at this time. It seems as though the cautious uncertain and limping market we have been having will continue to be with us for a while at least.

Sales by Non-Bank Investors Continue

The government market continues to move in a restricted range on somewhat enlarged volume. Price changes, although minor, have been mainly on the defensive side, because of renewed liquidation by the life insurance companies and the savings banks. These institutions are still letting out the tap bonds in order to meet commitments that give them higher income than the Treasury obligations. It seems as though there are enough of these forward commitments, which are taken up as time goes along, to result in sales of government obligations for quite some time yet. It had been expected in some quarters that the selling of government obligations by non-bank investors would be drying up in the not too distant future because of the new regulations and controls. These ideas, it seems, have now been revised, and it is believed that liquidation of Treasuries will continue in fairly sizable amounts by these large institutions for some months to come.

Nonetheless, the restricted market is not all on the unfavorable side, because there have been and still are important buyers aside from Federal in there taking certain issues on a scale basis or doing spot buying when weakness appears in specific obligations. Pension funds and trust accounts are the ones that are keeping the ineligibles from depending too heavily on Central Banks for support and stable market action. The 1959/62s seem to have the greatest attraction as far as these buyers are concerned, although there appears to be more than a passing interest in the other near-eligible tap bonds. There is also some buying of the 1967/72s but the volume in these securities has not been as sizable as in the earlier maturities.

Charitable institutions have also been in the market for not too large amounts of the Vics and some of this business has been the result of shifting from bank-eligible issues. Switching is also being done by fire and casualty companies within the tap group itself as well as from the longer bank bonds. There have been a few of the premium taxable eligibles let out recently by these concerns, and the proceeds have been invested in the Vics. It is believed in some quarters that more of these switches from bank obligations will be made by concerns that are desirous of salting down the premium. More than a little publicity is being given to the swap from the long bank issue into the Vics. It seems as though some results are now being obtained from this suggested exchange.

Commercial Banks Inactive

The commercial banks, as a whole, are on the quiet side as far as the longer end of the list is concerned. There has been and still is nonetheless a large demand for the shorts, especially Treasury bills. Money is not plentiful and the larger reserve requirements should keep it that way at least temporarily. Likewise, there seems to be no desire now to sell shorts for any other purpose than to get reserves, which are being used for loans, and not to buy longer governments.

There is not the uncertainty of daily quotations as far as loans are concerned and this does not appear to be distressing to the deposit banks at this time. While activity appears to be close to a minimum there is nevertheless some buying by investors in the intermediate and longer eligibles, and this seems to be coming largely from the out-of-town institutions. There have been scale purchases of the September 1967/72s as well as the '56/58s and the '56/59s.

Despite the defensive appearance of the eligibles market-wise, very few of these bonds are in for sale when buyers appear with bids. The recently offered 1¾s, although still under the protective wing of Federal, continue to move into strong hands, with the smaller banks the principal takers. The partials are being run up and down as far as quotes are concerned, without real significance as to trend or activity.

Rennemo With Stone & Webster

PHILADELPHIA, Pa.—Stone & Webster Securities Corporation announces that Thomas J. Rennemo has become associated with the sales department of the firm's Philadelphia office, Packard Building. He was formerly associated with the New York office of Harris, Hall & Company, Inc.

Toronto Bond Traders To Hold Annual Dinner

TORONTO, Canada—The Toronto Bond Traders Association will hold its eighteenth annual dinner at the King Edward Hotel on Friday, March 9. Derek G. Simpson, Midland Securities Limited, is President of the Association.

Did You GUESS?

Here's the 1951 version of the two angels appearing on page 20.

Barney Nieman Harry L. Zeeman, Jr.

(A) Barney Nieman, Carl Marks & Co. Inc., 50 Broad Street, New York 4, N. Y.

(B) Harry L. Zeeman, Jr., Carl Marks & Co. Inc., 50 Broad Street, New York 4, N. Y.

A. M. Kidder Co. to Admit Four Partners

A. M. Kidder & Co., 1 Wall St., New York City, members of the New York Stock Exchange and other leading Exchanges, will admit Francis M. Fitzpatrick, Russell C. Graef, Myron D. Stein, and George B. Hyslop to partnership on March 1. Mr. Fitzpatrick will make his headquarters in the firm's Montreal office, 276 St. James Street, West, of which he is resident manager. Mr. Stein, resident manager of the Detroit office, 600 Griswold Street, will continue to make his headquarters in that city.

Kidder, Peabody Co. to Admit Tamlyn as Partner

Arthur C. Tamlyn will acquire the New York Stock Exchange membership of Alexander Brown Griswold and will be admitted to partnership in Kidder, Peabody & Co., 17 Wall Street, members of the New York Stock Exchange and other leading Exchanges, on March 1.

Brinton to Admit

Brinton & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, will admit Gerard S. Smith, a member of the Exchange, to partnership on Feb. 23. Mr. Smith has been active as an individual floor broker.

Public Utility Securities

By OWEN ELY

American Power & Light Co.

American Power & Light on Feb. 15 filed an 11-page notice and a number of annexed statements with the SEC, as required by the Commission's Rule U44 (C) announcing that it was considering sale of its most important asset, the entire equity interest in Washington Water Power, to public utility districts or municipalities. It had been rumored for some time that American was contemplating such a sale, in preference to disposing of the stock through investment bankers (as was done with Pacific Power & Light) or by distribution to American stockholders. By sale to public agencies considerably more could be realized because of the ability of such agencies to issue and sell tax-free bonds and also to operate the property free of Federal income taxes.

Such a sale would probably be facilitated by a recent decision of the Supreme Court of the State of Washington (long delayed) upholding the Constitutionality of a law which permits a number of PUDs (and presumably municipalities) to "club together" in purchasing the property of a private utility company. This question has been an issue in Washington politics for a great many years and litigation has delayed application of the 1949 law. Both American Power & Light and Puget Sound Power & Light have been anxious to avail themselves of its application.

It has been generally assumed in the Street that Guy C. Myers (of 32 Wall Street, New York City) who managed the sale of Nebraska utilities to public power agencies in that state some years ago, and who attempted to arrange a unit sale of Puget Sound about five years ago, was still the "mastermind" behind pending deals, but his name has not appeared in connection with American's proposed sale of Washington Water Power.

There has been considerable opposition to the proposed sale because of various cross-currents of opinion or policy in the area served by Washington. There has been some feeling by municipalities that the PUDs should not be allowed to monopolize the acquisitions of private utility properties. The State of Idaho recently passed a law designed to prevent sale of Washington Water Power's property in that state to a PUD. Moreover, the state utility commission in Washington also has had ideas on the subject.

The sale would be highly favorable for common stockholders of American Power & Light if it can be consummated. American's notice states that "based on existing tax laws, American would receive net proceeds which, after reflecting every reasonably conceivable liability and adjustment of price and all costs incident to the transaction, would be not less than $56,000,000. On the other hand, it is believed that the net proceeds to American might reasonably be as much as $61,000,000." These amounts would be equal to about $24-$26 per American share, and as American also has net cash assets approximating $3 a share, break-up value for the stock can now be estimated at $27-$29 compared with the recent market price around 21.

Evidently the purchasers hope to pacify the municipalities by permitting them to acquire those parts of the company's property which now serve them. The sale plan will also provide (as described in American's notice to the SEC) for payments to employees of Washington which, together with amounts available under the company's retirement plan, would total about $2,700,000.

American's notice did not disclose the details of the negotiations with the PUDs and municipalities, but indicated that the sale might embrace either the physical assets or the company's stock. Washington's 3½% bonds and $6 preferred stock would be redeemed at call prices. The balance of the purchase price, which will include cash, U. S. Treasuries not in excess of $5,000,000 principal amount and bonds of public bodies not exceeding $15,000,000 principal amount, would go to American, which would take steps to distribute the proceeds to its own stockholders.

American states that, while no commitment has been made to purchase its interest in the Washington company, it believes that there are reasonable prospects of completion of the transaction. It asserts that the SEC has no jurisdiction "to deal with the merits of a sale to public bodies" and part of the notice is devoted to sustaining this point of view. The Commission has announced hearings on Feb. 20 and 26 to consider the matter, chiefly to receive statements relative to the question of its jurisdiction over the transaction.

Repercussions to American's announcement indicate that there is strong local opposition to this proposed sale. The Spokane Chamber of Commerce charges that American is attempting "to sell us down the river" and "trying to put over on this city a public ownership deal directed by commissioners not even living in Spokane." A bill is reported pending in the Washington Legislature to make it mandatory for cities of the size of Spokane to hold popular votes on whether a PUD can acquire private utility properties. It is also reported by the New York "Times" that six United States Senators from Washington, Idaho and Oregon held a meeting recently with the Chairman and other representatives of the SEC to discuss the sale.

In American's notice to the SEC it was stated that American's investment in Washington, plus its equity in surplus earnings, is over $68,350,000; and that the reproduction cost of the property, less depreciation, is over $96,500,000 after providing for retirement of bonds, preferred stock and all net liabilities. It set forth that 1950 earnings, after adjustment for non-recurring benefits and for increased Federal taxes at a 47% rate, would approximate $2,608,000, and that future earnings might be benefited by the proposed construction of the Cabinet Gorge Plant, if this could be debt-financed.

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Fallacies of Price Control

in holding down prices we will have inflation later, when we take off controls. This occurred after World War II. In other words, if we impose price controls and at the same time keep pouring out more and more buying power we build up a larger and larger inflationary lake behind the weakening dam of price control. Inflation comes when the dam breaks or the flood gates are opened. We may fear to open the gates, and so continue to live in regimentation.

There is no assurance that if prices rise now, they must fall later. Neither is there any assurance that holding them down now would keep them from rising later.

Runaway Inflation?

Some people are afraid that unless we have price ceilings, prices will "go through the roof" or "go out the top" and we would have runaway inflation such as Germany experienced in 1923 and like Greece had during World War II. I have studied many inflations in many lands covering a period of many years—the inflations of Austria, Russia, Hungary, China, Italy, Germany, Greece, and our own Revolutionary War. I know of no record of any nation that underwent runaway inflation so long as its productive plant was intact. The only examples of runaway inflation that I know of occurred in countries ravaged by war, torn by revolution, or devastated by some great disaster. At times of defeat, revolution and disaster, runaway inflations have accrued, but here again inflation was a symptom of a more deep seated cause.

It is a matter of interest that many of the countries which have undergone runaway inflation have done so in spite of a system of ceiling prices.

How Much Inflation Can We Stand?

How much inflation can a country stand? There are three different levels: the psychological level, the political level, and the economic level, each successively higher than the former.

The psychological level is the one at which people start to complain about the rising prices. This is a very low level; an increase of a few cents a pound in the price of beef.

The political level is somewhat higher; it is the level at which the complaint about rising prices becomes sufficiently great so that the Congress will do something about it. Maybe a rise of 10% in a year's time will bring about this reaction.

Finally, there is the economic level, the level at which the country's production is really harmed. I don't know where this level is, but it is fantastically high. The doubling of our price level during the war was an aid to production, not a handicap. After World War I, Finland's price level was 10 times prewar, and she was prosperous enough to continue paying her war debt. China's price level in 1948 was 5 million times as high as in 1937, and the average level of living was much the same as before.

Inflation affects different classes of people differently, as everyone knows. Farmers find that their prices rise and the costs lag; they like inflation. Laborers find that wages rise and jobs are plentiful; they like inflation. There is one important group which suffers during inflation—those of fixed salaries. Unfortunately, this group includes newspaper editors, radio commentators, Congressmen, and professors of economics. These people talk and write all out of proportion to their numbers or importance, and are responsible for much of the furore about the evils of inflation. They find inflation harmful to them and generalize from their own experience.

A good measure of the reaction of the people to inflation is their behavior at election time. In all the 160 years of our history as a nation, there have been only two occasions when the people failed to maintain a party in power when the price level was rising; with prices falling, there have been only two occasions when they failed to "turn the rascals out."

To summarize, I doubt that the dangers of inflation are sufficiently great to cause us to scrap the price system and go in for price ceilings. Admittedly, the country is rather slow in lining up behind me on this point.

The Functions of Price

Suppose, for the sake of argument, that we concede inflation to be a grave threat. What, then, of the appropriateness of the remedy which has been proposed—a freezing of prices? Let us remember that regimentation of prices is a matter in which the Communists are past masters, and it is doubtful if we can out-regulate Stalin. When we fix prices we elect economic weapons in which our adversaries excel.

Prices serve three functions. They tell us what to produce, they guide commodities through the channels of trade, and they tell the consumer what and how much to consume. If the price of hogs increases relative to corn, the farmer recognizes the consumer's request for more pork, and he responds accordingly. If the price of eggs rises in New York relative to Philadelphia, the egg trade recognizes the call for more eggs in New York and diverts eggs to the high-priced outlet. The consumer, with her market basket on her arm, chooses goods on the basis of price. If steak is high she buys hamburger, and if both are high she buys beans. One hundred fifty million people vote on these prices. Everybody serves on the committee that determines market prices, and serves without pay.

What happens when we hold these prices below the market level?

First, the consumer recognizes this as an encouragement to increase consumption, and cleans off the shelves.

Second, the farmer recognizes this as a sign to reduce production. So a shortage develops, and the scant supply must be rationed. This may not have been contemplated at the time the ceiling price was set, but given time it follows as the night follows the day.

Finally, with artificially low prices, production continues to lag and subsidies must be resorted to.

Ceiling prices, rationing and subsidies are the three-legged stool of an economy which endeavors to hold prices below the equilibrium level. A stool will not stand for any length of time on one or two legs, but needs all three. Our World War II experience serves as an illustration.

In 1942 an attempt was made to control the potato industry with only one leg of the stool—price fixing. OPA fixed a low price for potatoes but failed to issue ration tickets or subsidize production. Consumers were encouraged to use potatoes too rapidly and the following spring there was a potato famine.

Lumber is a commodity for which control was attempted using only two legs of the stool—price fixing and rationing. Subsidies to stimulate production were lacking and lumber was scarce.

Sugar was a commodity for which price fixing, rationing and subsidies were all in operation. The consumer therefore had a reasonable degree of certainty that he would be able to buy at low price the amount of sugar which the government thought good for him.

In England they understand this better than we do, for they have been at it longer. They fix prices, ration and subsidize agricultural commodities pretty well across the board; they have had to do this to make the system work. We will have a similar experience if we stay with it long enough. If we won't let the price system function we shall have to step in and do the jobs that the price system formerly did for us.

In the first act of the national melodrama, Price Freeze is the fair-haired hero who would save Little Nell from the villian, Inflation. But in Act II he must request the aid of that low character, Rationing, and in the last act the two of them must beg the help of that ugly fellow, Subsidies. If the audience knows all this and still wants to pay to see the show, well and good. But they had best not cheer too loudly or too early when Price Freeze makes an entry.

The American citizen needs to know that he can't have artificially low prices which he considers desirable without rationing and subsidies which he considers undesirable. It is a package sale. We do not know this, hence our enthusiasm for price control. The first effect of price control is to permit us to buy at a low price, which we all like. This continues so long as the momentum of our past production pattern will carry us. Then we get in trouble, and need to ration and subsidize. But this time we feel the full impact of the program and are likely to kick it out. This cycle took about four and a half years under OPA.

An Alternative

Luckily there are alternatives to all this—taxes, which mop up buying power, and credit controls, which prevent the creation of new money. These take the upward pressure off the price level. If we had the courage to apply these remedies in sufficient degree we could halt inflation, and at the same time let the prices of individual commodities fluctuate freely. We would not merely postpone inflation to some later date and we could preserve our freedom. The advantages of pay-as-we-go are enormous, but there must be a great deal of education before we're ready to take that course.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of George H. Flinn, Jr., to Andrew Baird will be considered by the Exchange on March 1.

Transfer of the Exchange membership of the late Gerald M. Livingston to Elliott D. Fox, Jr., will be considered on March 1.

Transfer of the Exchange membership of the late William G. Baker, Jr., to Albert H. Deuble will be considered by the Exchange on March 1.

Transfer of the Exchange membership of the late Frank E. King to Theodore Levy will be considered by the Exchange on March 1.

Interest of the late E. E. Mellinger in Rotan, Mosle & Moreland will cease on Feb. 28.

Continued from first page

Let Chiang Kai-shek Open Second Front in Asia

qualifications into practical action.

Let us apply ourselves tonight to examining the situation we are now in. Here briefly is what we see:

Since the end of World War II, due principally to the use of armed might and the tactics of infiltration, and due also to the incredible policies which the United States and other free nations have followed, the Soviet Union has managed to expand its domination from 170 million people to 800 million people. In other words, almost without firing a shot, Communist Russia in five so-called peacetime years has increased its domination five-fold over human beings and now physically controls half of Europe and half of Asia and threatens the other halves on both continents. **That is Fact Number 1.**

The free countries, on the other hand, devoid of the guile and immorality which the communists practice, have failed to produce the political weapons necessary to match the unprincipled tactics of the Soviet Union. True, ECA has been devised as a weapon, and it has had some success, but it has not been enough by any means. Our counter-propaganda, a political weapon so effectively used by the Soviet Union, has been long on quantity and pitifully short on quality. Our programs of technical assistance and capital loans have operated in dubious fashion and have not proved too effective. In short, we have permitted ourselves to be completely out-maneuvered in the employment of political weapons. **That is Fact Number 2.**

Finally, while Russia has spent the last five years increasing its armed might, the free countries, and particularly the United States, have been busily engaged in reducing their military strength. In our own country, the record must show that the Republican 80th Congress passed laws directing the President of the United States to build the Air Force up to 70 groups, to strengthen the Marine Corps, and to broaden naval aviation by the construction of a super aircraft carrier. But unfortunately the Administration had other plans. These plans called for the armed services to be reduced, and by the President's own directive countermanding the action of the Republican 80th Congress, the Air Force was held to 48 groups, the Marine Corps was virtually consigned to oblivion, and construction of the super aircraft carrier, on which $4 million already had been spent, was ordered halted by the White House in 1949.

Military Assistance Program

The Republican 80th Congress, by passage of the Vandenberg Resolution, laid the groundwork for the Military Assistance Program, and the 80th Congress also voted funds over Administration protests to send arms to the anti-communist Chinese Government of Generalissimo Chiang Kai-shek. The Military Assistance Program was commenced, but unfortunately the military aid that the Administration permitted to reach the anti-communist Chinese Government of the Generalissimo was far short of what was needed—in fact, it was pitifully small. But that is not all. Because we had fuzzy-minded, pinko officials in our security setup, the Soviet Union was able to steal the secrets of the atomic and the hydrogen bombs. To sum up, Russia and its satellites have spent the last five years in an enormous armament program while the United States and the other free nations were disarming. **That is Fact Number 3.**

No one regrets the Korean conflict more than the American people. But despite its terrific cost, Korea has finally awakened the world and certainly the United States to the fact that the communist conspiracy is essentially a conspiracy employing deception and armed might. So, we are rearming—rearming at greatly increased cost to the United States and the free nations everywhere. The Air Force is at last being built to 70 groups, and construction of a super aircraft carrier has finally been started all over again. The Army is being expanded. The Marine Corps is coming back into its own. The Navy is being taken out of the mothballs.

I ask you—could it be that the Republican 80th Congress was right after all?

We long ago learned that no nation can suddenly launch a huge rearmament program without throwing its entire economy badly out of joint. Because that is a fact, the Administration found it necessary to seek, and Congress to vote, the imposition of wartime economic controls. So, once more America is plagued by arbitrary controls administered by political favorites and White House errand boys. Once more we are burdened with bureaucratic red tape, high prices and shortages.

I think I can be pardoned for what I am about to say: Had the directives and policies of the Republican 80th Congress been followed *instead of sabotaged*, the Korean conflict might never have happened, wartime controls and sky-high taxes might not be with us, and the world crisis which now exists might have been averted.

Now, let us examine what we are doing today from a practical standpoint.

We appear to have solidified our position along the Han River in the vicinity of the 38th parallel in Korea. That theater occupies approximately 200,000 of our troops, with Japan as a base of operations.

On Formosa to the south, the recognized government of the Republic of China, headed by Generalissimo Chiang Kai-shek, still holds out, together with its anti-communist army of 800,000 troops. Despite the fact that the only government of China that we officially recognize is the Generalissimo's government, the Administration in Washington refuses to back the Generalissimo and his fighting forces. In fact, President Truman in his official announcement on Korea on June 27, 1950, declared that we were sending the Seventh Fleet to Formosa to prevent any more air and sea operations by the Generalissimo's forces against the Chinese Reds, thus inactivating the 800,000 troops on the Island.

On the Chinese mainland, anti-communist guerrilla bands continue to make raids on the Chinese Reds. Approximately 1.5 million anti-communist Chinese guerrillas are engaged in these sorties.

In French Indo-China, a so-called "volunteer" communist army, composed substantially of Chinese Reds, engages a French force. The French have approximately 150,000 fighting men operating in that area.

In the balance of Asia, the operations of the Chinese Reds are a constant threat to the security of Burma, Malaya, Indonesia, Pakistan and India.

In Europe the forces of the Soviet Union and its puppet states are comparatively quiescent. However, military men are generally in agreement that the Soviet Union, with its 200 Red Army divisions, could roll all the way to the English Channel on the West and to the Pyrenees on the South unless a miraculous rearmament program were undertaken by the free nations of Europe. At the present time, the free nations of the world *combined* could not muster more than 60 divisions to stop a Soviet advance in Continental Europe.

Two nations in Europe are on the outside looking in. Yugoslavia, a former satellite, has broken with the Soviet Union, and Tito casts an occasional friendly glance at the Western powers. Spain, the guardian of the Pyrenees and one of the strongest military powers in Europe today, remains isolated from the free nations, anti-communist though the Franco regime is.

That briefly is the practical situation. Just where do we go from here?

Apparently it is the aim of the Administration in Washington, as it has been for the past five years, to put our eggs in the European basket. We are told that American troops should be put on the Continent of Europe. We are at this moment sending more and more military supplies to the members of the North Atlantic community. We are sending food to Tito. We are in consultation with the governments of Western Europe and their military leaders.

Everyone knows that we must have an effective aid program for Europe. Everyone knows that we must not, if we can possibly prevent it, allow the resources and productive capacity of the free European nations to fall into communist control. It is essential to have a program that meets this problem.

But I protest with every resource at my command the formulation of any over-all strategy which virtually ignores the focal point of our trouble today—Asia. And I might add that Republicans in countless numbers, myself included, have been protesting such a policy, such a strategy, for years. Our protests date all the way back to 1943 when the first secret decisions were reached by the Administration in Washington to give its blessings to the Chinese communists as a political force in the Orient, as opposed to our great ally, the established government of the Republic of China.

Aid to Nationalist China

How many Americans recall that on Dec. 15, 1945, President Truman publicly announced to the world that unless the Republic of China admitted Chinese Reds to its government, American aid would be cut off? How many Americans recall that the aid was cut off and that General Marshall was sent to China to make sure that the troops of Generalissimo Chiang Kai-shek stopped their attacks on the Chinese Reds? How many Americans recall the protests against this policy made by such outstanding experts as General Wedemeyer, Patrick J. Hurley, and William C. Bullitt? How many people recall that General MacArthur declared our failure to help the Republic of China may be "the single greatest blunder in the history of the United States."

Stop and think.

We abandoned the anti-communist forces of Asia once, and the Reds took over China! **Are we going to make that same mistake twice?**

America has suffered 50,000 casualties in Korea. Mr. Truman says we are going to stay in Korea. What is the strategy.

Are we going to leave 200,000 American boys stranded in Korea? Or does some master planner think the pressure can be taken off them by deploying other hun-

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Railroad Securities

Chicago & North Western

Many railroad analysts have been looking with renewed speculative interest at the common stock of Chicago & North Western, feeling that in the defense economy that we face for an indefinite period to come its earnings could well show spectacular gains. It is felt, also, that if such a sharp spurt in earnings does eventuate, as it did in World War II, it will be accompanied by commensurate dividends on the junior equity. The road's debt burden is quite small and its financial status is strong. Reflecting this condition, the management, since consummation of the reorganization, has been quite liberal with dividends. Dividends have, however, been erratic, as have earnings.

On the basis of its long-term record there is little basis for enthusiasm as to the fundamental investment standing of the road's securities. Consistently for many years (except for the war period) it has been one of the least efficient of the major carriers, measured by the pre-tax margin of profit. There are a number of reasons for this unsatisfactory showing, and at least to a considerable extent many of them appear of a premanent nature. With this low profit margin, the road is obviously hard pressed to absorb mounting wages and material and fuel costs except when traffic is at very high levels. Also, there is little cushion to offset traffic declines when they come.

One weakness is the importance of passenger business, and particularly the short haul commuter traffic. This is very expensive to handle, and as a practical matter impossible to get rid of. Secondly, the road operates a large amount of low density branch line mileage. It is true that considerable progress has been made in recent years in abandoning some of these lines but it is a slow process and much still remains to be done. Finally, the road has an unusually short haul on much of its freight traffic. Thus, terminal costs impose an unduly heavy burden. Obviously, terminal expenses are just as heavy if a shipment moves 50 miles as if it moved 200 miles and produced four times as much revenue.

During periods of boom traffic these basic weaknesses tend to disappear. Also, the North Western management has been taking aggressive measures to minimize to the extent possible the basic difficulties. Among these steps have been dieselization, which is still going on, and, as mentioned above, abandonment of unprofitable mileage. With these forward looking steps, and with the prospects of a peak level of railroad traffic for some years to come, there is every reason for anticipating a sharp upturn in earnings over the near and intermediate terms.

In the World War II period peak earnings were reached in 1942. This was before reorganization and when the company still had the tax benefit of the higher charges of the old company. In 1942 common share earnings, before sinking and other reserve funds, reached $25.88. Even in 1945, when the tax benefits of the old capitalization were no longer effective, these earnings remained above $13 a share. Postwar, they fell rapidly, amounting to only $1.94 in 1947 and then recovering to $4.26 in 1948. In the following year, 1949, the company was very severely affected by unprecedented winter storms and less than $1.50 was earned on the $5 preferred.

The above figures dramatically illustrate the extremely heavy leverage in the stock. This leverage is further highlighted by the fact that each 1% of gross revenue at the 1950 level is equivalent to $2.31 a share before Federal income taxes. Last year the company earned $2.49 a share of common before sinking and other reserve funds and $1.06 a share after allowing for such funds. Out of this, $1.50 a share was paid in dividends. This year on top of the favorable general railroad traffic picture, North Western is expected to benefit materially from the all rail movement of iron ore during the months the Great Lakes are closed down and when iron ore traffic usually drops to negligible proportions. With this background, and the high leverage, it would not appear too fantastic to look for a jump in common share earnings this year to the $12 - $15 range. With such potential earnings the stock obviously has considerable speculative appeal in the middle 20s.

Bertram Seligman With Straus & Blosser in N.Y.

Bertram Seligman

Straus & Blosser, members of the New York and Midwest Stock Exchanges, announce the opening of an office at 30 Pine Street, New York City, in charge of Bertram Seligman. Mr. Seligman was formerly with Townsend, Graff & Co., and prior thereto with Ward & Co.

Felton and Dean

(Special to The Financial Chronicle)

PUEBLO, Colo.—Robert J. Dean and Willard B. Felton have formed Felton and Dean with offices at 527 West Orman Avenue to engage in a securities business.

Harker Co. Admits

LOS ANGELES, Calif.—George Knox has been admitted to partnership in Harker & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange. Mr. Knox has been with the firm for some time.

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Let Chiang Kai-shek Open Second Front in Asia

dreds of thousands of American boys to the scene in Europe?

If we really want to take the pressure off our forces in Korea, and if we want to diminish the threat of a Soviet sweep across Europe, why, may I ask, do we not employ the 800,000 anti-Communist Chinese troops on Formosa?

There is no question whatsoever about the desire and the eagerness of the Generalissimo and his troops to join in battle against the Chinese Reds. When the Korean conflict broke out, the Generalissimo, within a week, offered to transport immediately 33,000 troops from Formosa to Korea. We turned him down cold.

Why?

Our State Department claimed that we did not want to antagonize the Chinese Reds and bring them into the conflict!

Well, the Generalissimo's troops are still on Formosa, but our boys have been fighting the Chinese Reds since last November.

The State Department's reasoning is no longer valid today, if it was ever valid.

What could be sounder logic, both strategically and militarily, than to allow the anti-Communist forces of the Generalissimo on Formosa to participate in the war against the Chinese Reds? Why not let them open a second front in Asia?

Let us consider the possibilities:

First, there is good reason to believe that the Chinese Reds could not support a two-front war. They have neither the railroads nor the highways nor the transportation to supply a force fighting in Korea and another on the Chinese mainland, where presumably the troops of the Generalissimo would infiltrate if we gave them the necessary material aid.

Second, there is excellent reason to believe that if the Generalissimo's 800,000 fighting men reached the mainland of China tomorrow, they would double the size of their army within six to eight weeks by the addition of anti-Communist guerrila forces already fighting the Reds in South China.

Third, the opening up of a second front on the Chinese mainland by the forces of the established government of China, operating from Formosa, would not only take the pressure off our forces in Korea, but would reduce the pressure on the French in Indo-China and the Communist threat in Burma, Malaya, Indonesia, Pakistan, India—and Europe.

Fourth, according to responsible military opinion—yes, right in our own Pentagon—the establishment of a second front on China's mainland by the armies of Generalissimo Chiang Kai-shek is not only feasible and practical with aid from us, but it would be the cheapest operation that we could promote in the terms of dollars and manpower.

The forces of the Generalissimo are mostly battle-tested, and they are as well trained as the Chinese Reds. Their needs to make a second-front operation successful fall mainly in the categories of ammunition, transportation, planes, tanks, and food. The Generalissimo has planes and tanks, but he would need more. The Generalissimo has a navy, but it needs replacement parts and servicing.

Whether the second front would be opened up by an invasion of the mainland or whether it would be built up by a series of commando raids and night landings would depend on the number and strength of the Chinese Red forces in that area. For such purposes, the Generalissimo already has assembled miscellaneous craft, but his operations would be much more successful if the United States provided amphibious craft, landing barges, and PT boats.

In addition, it would be desirable to have American experts to help train the Generalissimo's officers and men. Shipments of food—a critical item in Asia—would be a prime necessity.

A Second Front in China

What kind of logic is it that lets our soldiers die in Korea when, by shipping the proper supplies to the Generalissimo, a second front could be opened in China without a single GI being forced to place a foot on the soil of the Chinese mainland?

Certainly, if the Soviet Union can employ its puppet states to fight its wars even against their will, then the United States can call on its friends who are not only willing but begging for the opportunity.

Certainly, we want a united and militarily-strong Europe. Certainly, we are willing to provide equipment and possibly some of the manpower necessary to achieve that goal.

But let us not place all our eggs in the European basket. Let us remember that we have friends in Asia and that we are fighting a war in Asia at this very moment.

If it is right for American boys to fight Chinese Reds in Korea, what can be wrong with American help to the anti-Communist Chinese fighting the Reds on their own soil?

What are we in Korea for? To win or to lose?

If we are in Korea to win, then we should do everything possible to bring that victory about. If we are not in Korea to win, then this Administration should be indicted for the murder of thousands of American boys.

Some persons may ask: If a second front in Asia can be opened at very small cost to ourselves and without employing American troops, why haven't our generals done it?

The answer is that we do have military people who favor the employment of the anti-Communist forces of the Republic of China. There is good reason to believe that General MacArthur favors such an operation. There is good reason to believe that there are people in the Pentagon who favor such an operation.

Why hasn't a second front been opened? The reason is that the State Department is preventing it, the same State Department crowd that cut off aid to the Government of China back in 1946, thus allowing China to fall into Communist hands. Can anyone expect the State Department to admit five years too late that it was wrong? Can anyone expect the State Department to accept the blame for the fact that American boys are now being killed by Chinese Reds?

No, the State Department, as now constituted, is never going to permit a single soldier from Formosa to participate. Why? Because it would mean that the State Department would finally have to admit that we should have supported Generalissimo Chiang Kai-shek all along.

If we want to develop a true global strategy that will wipe out the Communist threat of world domination, if we want a strategy that will save Europe and save Asia at the same time, if we want a strategy that will help save American lives not only in Korea, but wherever the next so-called "police action" may occur, then I say to you that we must clean out the State Department from top to bottom, starting with Dean Acheson.

Russia Wants Asia

The master planners in the Kremlin have had their eye on Asia for a quarter of a century. All anyone has to do is to read the writings of Lenin, Stalin, or the "Daily Worker." William Z. Foster, the head of the Communist Party in the United States, wrote in the "Daily Worker" on Dec. 2, 1945: "The war in China is the key of all problems on the international front."

Hitler in "Mein Kampf" stated emphatically that Asia was the key to the world situation. Tojo knew that Asia was the key to the world situation. Military strategists of many governments have declared the same thing time and time again.

Almost everybody knows it except our State Department!

Time is running out in Asia. How long do you think 1,500,000 anti-Communist guerrillas can hold out against superior forces? How long will it be before the bottoms rust out of Chiang Kai-shek's small navy? How long will it be before his guns, tanks, and planes are completely outmoded? How long will it be before the Chinese Reds have perfected their defenses to such an extent as to make a second front impossible?

No, time is not on our side. If we permit the State Department's bankrupt policies to prevail, time will have run out completely, while more thousands of American boys die on foreign soil.

The people of Greece will never forget that the shipment of 50 of our Navy's Helldiver bombers was their salvation back in 1946. Those 50 planes, together with only three American military men to train Greek fliers, and a mere handful of mechanics to teach the Greeks to service the planes, turned the tide against the Communist forces in Greece.

Certainly, if we could afford to gamble in Greece and achieve such wonderful results, we can afford to take a chance on Formosa.

A little can go a long way if it is effectively applied. Successful policies are not measured in billions of dollars, millions of foot soldiers, and thousands of planes. The true measure is how effectively those dollars, those men and those planes are employed. Nor is the measure of good government its multitude of controls and edicts, or the scarcities and hardship it imposes, or the lavishness of its spending and the harshness of its taxes.

Don't you think it is about time Washington learned that?

Yes, in this crisis, we need leadership and sound policies as we have never needed them before. As Americans, everyone of us must act in the full meaning of good citizenship. We must look to the year of 1952 for deliverance. It is up to every American to help obtain this leadership by promoting widespread discussion of the issues and the most careful selection of political candidates in both parties. Each of us can help; each of us should participate to the utmost.

As we near the end of this day of tribute to Abraham Lincoln, let us borrow from his wisdom, his simple principles and his frugality. Let us remember that it was the clear, high-principled thinking of Lincoln that saved this Union, and let us realize that without clarity of thought, without actions based on fundamental principles, without the moral values that he embraced, we cannot save the world we live in.

We have more than an opportunity. We have a duty. God grant us the wisdom and the strength to perform it.

Sacrifice for the Other Fellow

"This [withdrawal of representatives of labor from the Wage Stabilization Board] is not a question of an isolated incident. Our decision here cannot and must not be interpreted merely as a protest against an unfair and unworkable wage formula which is now being imposed. That formula culminated in a whole series of shocking developments which we find insupportable.

"These developments add up to nothing less than a crisis in our defense mobilization program.

"That crisis must be quickly resolved if America's mobilization program is to move ahead with the speed which our national skills, techniques and resources make possible.

"The crisis has developed because the men who are in control of the mobilization program have ignored the necessity for 'equality of sacrifice' by all the people. Only through such equality of sacrifice can we fully and effectively win the voluntary cooperation and the intense will to win of every American citizen."

—United Labor Policy Committee.

We wonder if "equality of sacrifice" does not to some people mean sacrifice for the other fellow.

N. Y. Curb Exchange Elects Mann, Kershaw

John J. Mann, vice chairman of the board of governors of the New York Curb Exchange for the past year, was elected chairman of


John J. Mann Charles J. Kershaw

the board at the annual election, Francis Adams Truslow, president of the exchange, announced. Mr. Mann, a member of the nation's second largest securities market since 1933, succeeds Mortimer Landsberg, who had served as chairman since February, 1950.

Charles J. Kershaw, a regular member of the New York Curb Exchange since 1940 and a governor since March, 1945, was elected vice chairman of the board for the ensuing year at the 41st annual organization meeting of the board, succeeding Mr. Mann.

Mr. Kershaw, who was employed by the Guaranty Trust Company in 1926, began his Wall Street career in 1931 when he entered the employ of Reynolds & Company. He became a partner in that firm in December, 1940, acquiring his Curb membership a few days later. Mr. Kershaw has served on many of the Curb's standing committees and was formerly chairman of the committee on admissions.

O. F. Browning, Jr., and Sterling Nordhouse were elected Class A governors of the exchange for one year terms. Class A governors elected to three year terms included: Andrew Baird, Josephthal & Co.; Arthur C. Brett, Goodbody & Co.; James R. Dyer, Dates & Dyer; Thomas H. Hockstader, L. F. Rothschild & Co., and Joseph F. Reilly.

Elected to three year terms as class B governors were Mathew Dean Hall, L. A. Mathey & Co.; John F. McLaughlin, McLaughlin, Reuss & Co.; Alexander R. Piper, Jr., Paine, Webber, Jackson & Curtis and Robert C. VanTuyl, Shearson, Hammill & Co.

Thomas Morris and E. J. Muller, Muller & Schryver, were elected as trustees of the gratuity fund for three year terms.

Standing committees appointed by Mr. Truslow to direct the administration of the exchange for the year have also been approved. Committee chairmen named include: executive committee, Mr. Mann; committee on securities, Benjamin H. VanKeegan; committee on outside supervision, Robert C. VanTuyl; committee on floor transactions, Mr. Kershaw; committee on finance, Edward C. Werle; committee on admissions, Edward A. O'Brien; committee on arbitration, Thomas F. Fagan; committee on public relations, Harold J. Brown; committee on business conduct, Andrew Baird; realty committee, Carl F. Cushing.

The board of governors approved the reappointment of George Rowland Collins, Dean, New York University School of Commerce, Accounts and Finance and the university's Graduate School of Business Administration; Edward F. Barrett, president of Long Island Lighting Company, and Benjamin H. Namm, chairman of Namm's, Inc., as public governors of the Curb Exchange.

Curb Exchange officers appointed by the board include Charles E. McGowan, vice president and secretary; Christopher Hengeveld, Jr., vice president and treasurer; Martin J. Keena, vice president, and Joseph R. Mayer, assistant treasurer and director of the department of finance. Arthur A. Bellone was appointed director of the office of floor transactions; Edwin J. O'Meara, director of floor supervision; H. Vernon Lee, Jr., director of the department of admissions and outside supervision; Bernard H. Maas, director of the department of securities; John J. Sheehan, director of the department of public relations and Wilmont H. Goodrich, director of the building department.

F. I. du Pont Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla. — Mrs. L. Blanche Bowen, Wendell J. Brown, Elbridge H. Elmore, Charles S. Goldy, and Hugh W. Jackson have joined the staff of Francis I. du Pont & Co., 121 Southeast Second Avenue.

With F. I. du Pont Co.

(Special to THE FINANCIAL CHRONICLE)

FT. LAUDERDALE, Fla.—Frank C. Byrne, Robert C. Caswell, George E. Hudson, Rumsey N. Trezie, and Eugene L. Ward are now with Francis I. du Pont & Co. in their recently opened office at 113 Southeast Second Street.

Canadian Securities

By WILLIAM J. McKAY

Canadian international trade figures for 1950 surpassed the $6 billion level for the first time in history. The actual total for the year was $6,331,300,000 which compares with $5,783,700,000 for 1949. Exports showed an increase on the year of about $100 millions but imports surged to all-time peak of $3,174,300,000 which represents an advance over the previous year of approximately $400 millions. The higher import total was caused principally by boom conditions in the Dominion and the relaxation of import restrictions.

The salient feature of the trade returns however was the striking rise in exports to the United States. Although imports from this country were also higher the percentage increase was only 9% in contrast to the 34% advance of exports. Whereas only a few years ago Canada's chronically large deficit in trade with this country constituted a major economic problem, the situation has now undergone a revolutionary change with the unfavorable balance virtually eliminated. Similarly the Dominion's previously unwieldly favorable balance of trade with the British Commonwealth countries, which posed an embarrassing problem of exchange conversion, has also disappeared. Thus in a remarkably short space of time the imbalance of trade both with the United States and the Sterling area has been largely corrected.

Although during 1950 Canada's customary surplus in trade with all countries was replaced for the first time since 1931 by a small deficit of $17 millions, this would appear to be only a temporary circumstance. The recent abrupt decline in exports to the British Commonwealth has been caused mainly by sterling area restrictions on imports from hard-currency sources. In view of the present favorable situation of the British exchange reserves the impediments now placed on dollar imports are likely to be progressively lifted; negotiations for the resumption of traditional purchases in Canada are in fact already in course.

On the positive side also it is possible to look forward to the continuance of a rising trend of exports to this country as U. S. rearmament needs stimulate to an increasing degree the exploitation of Canada's vast wealth of virgin natural resources. At the same time the ever-expanding U. S. economy is creating an accentuation of the demand for normal Canadian exports such as newsprint, wood-pulp, lumber, base and precious metals, asbestos, gypsum, and the products of the Dominion's farms and fisheries. In addition Canada's important invisible export item, the U. S. tourist-traffic, is proving to be an increasing source of foreign revenue.

In the next few years moreover the Canadian capacity to supply the growing world demand for industrial requirements will be enormously expanded. Labrador iron-ore will ultimately constitute a leading export item. Alberta oil production, following the completion of projected pipe-lines and storage facilities will also be capable of sufficient expansion to permit eventual export on a large scale; this also applies to Canadian natural-gas, the development of which is now receiving belated attention on the part of the prairie provincial authorities. Another new Canadian industry has just been established in Quebec for the mining and smelting of the vast Allard Lake ilmenite deposits. The end-products titanium-oxide and pig-iron will shortly make an important contribution to Canadian export trade. Canadian production of the strategic metal aluminum is also likely to be greatly expanded in the course of the next few years as a result of present plans to boost current annual production of 700 million pounds to 2,500 million pounds. Although proposals to supply this country with part of the increased production have so far been rejected, there is little doubt that rearmament exigencies will ultimately compel reconsideration of the matter.

Over and above these specific situations Canada now offers an obviously widening field for investment of every description. Underlying any placement of funds in the Dominion is the fundamental security of capable and conservative governmental policies and a sound and improving currency. It is hardly surprising therefore that responsible Canadian officials are now making the confident prediction that it will not be long before the Canadian dollar will attain parity with and possibly a premium over the U. S. dollar.

During the week there was almost a complete absence of business in the external section of the bond market but purchases of Dominion internals continued more than to offset liquidating sales. The corporate-arbitrage rate was weaker at 7%-6% but the Canadian dollar steadily forged ahead to reach its highest level of the year. It is possible that the supply of Canadian dollars might shortly be increased as a result of liquidation of speculative holdings held for six months for tax purposes, but the volume might not be as large as anticipated in view of the probability of an accentuation of the rising trend of the dollar during the summer months. Stocks were irregular and mostly lower with the exception of the golds as rumors were revived of a semi-free market for the metal. The oils also showed resistance to the downward trend.

Continued from page 10

Mutual Funds

HORACE S. FORD, former Treasurer of Massachusetts Institute of Technology, today was elected a trustee of the George Putnam Fund, whose total net assets are in excess of $47,500,000 with 16,000 shareholders.

George Putnam, Chairman of the Fund, announced that Mr. Ford would fill the vacancy caused by the death of Richard Osborn, former trustee of the Citizens Savings Bank of Fall River, Mass.

ONE OF THE numerous ways in which Selected American Shares seeks to protect the interests of its shareholders is through an Approved List, a copy of which can be obtained by the shareholder at any time. Additions to or removals from the list may be made by a majority vote of the directors. Shareholders must be informed by mail of such changes, and no investments may be made in securities of companies added to the List until 30 days after such notice. It is believed that the Approved List is a stabilizing and conservative feature.

At times, however, opportunities arise when prompt action seems advisable, when the delay entailed by the mechanism of adding companies to the List may prove costly. For this reason the directors are seeking some leeway and therefore they contemplate recommending to the shareholders, for approval at the annual meeting on April 3, an amendment to the certificate of incorporation which would permit the company to invest up to 5% of total assets, at market value, in securities of companies not on the Approved List. The proposal would provide that any purchases of this nature must be authorized by at least a majority of the directors, and that within three months, if the securities are then held by the Fund, the company or companies must be added to the Approved List in the prescribed manner and the shareholders notified.

Investment Registrations

Mutual Fund of Boston, Feb. 15, filed with the Securities and Exchange Commission **20,000 shares** to be sold at net asset value plus 8%. Underwriter and investment manager is Russell, Berg & Co.

Insurance Securities Incorporated, Oakland, Calif., on Feb. 16 filed a registration statement with the Securities and Exchange Commission covering **5,700 units, Single Payment Plan,** series U, and **7,750 units, Accumulative Plan,** series E, 10-year participating agreement. No underwriter.

The following registration statements, filed Jan. 26, became fully effective on Feb. 14: **Keystone Custodian Funds** certificates of participation, **350,000 series B1** aggregating **$10,080,000; 150,000 series B2** aggregating **$4,249,500; 50,000 series KT** aggregating **$1,497,500; 300,000 series S2** aggregating **$5,655,000,** and **200,000 series S3** aggregating **$3,712,000.**

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The generally favorable banking conditions which prevailed during 1950 were reflected in improved earnings for commercial banks throughout the country.

This gain in income was widespread. However, it was particularly true of the banks away from the money center of New York. For the most part the earnings of banks in these cities were at record levels. The trends which have favored these institutions for a number of years continued to be evident and helped in the favorable showing.

The rapid growth of banks in the areas away from New York has progressed to such an extent that at the end of 1950, there were nine banks outside of New York City that had deposits in excess of $1 billion.

These institutions are widely scattered from Massachusetts to California and show variations in deposits from the $1,018,000,000 of the American Trust of San Francisco to the $6,192,000,000 of the largest bank in the country, Bank of America.

The nine banks which had over $1 billion in deposits at the end of last year are shown in the following tabulation.

	000's Omitted					
	Total Deposits		Capital Funds		Loans & Discounts	
	1950	1949	1950	1949	1950	1949
	$	$	$	$	$	$
American Trust (San Fran.)	1,018,097	937,432	47,447	39,942	462,424	374,736
Bank of America	6,191,706	5,775,110	394,822	305,845	3,256,954	2,804,523
Cleveland Trust	1,154,364	1,058,373	60,003	52,317	386,508	288,518
Continental Illinois National	2,378,443	2,348,174	183,128	175,890	511,417	361,653
First National (Boston)	1,432,030	1,376,695	113,348	110,436	622,168	456,329
First National (Chicago)	2,404,787	2,278,611	164,023	154,291	953,330	790,957
Mellon National (Pittsb'gh)	1,496,587	1,217,154	209,895	198,439	428,671	353,628
National Bank of Detroit	1,487,070	1,293,841	66,408	64,122	317,353	253,247
Security First Nat'l (Los A.)	1,702,042	1,602,888	97,802	91,599	435,177	380,894

The above figures also show the capital funds and the loans and discounts of the various banks. Deposits were higher in all cases. The one notable change during the year was the American Trust reaching the billion dollar mark.

Obviously the sharp expansion in loan volume was one of the major factors which contributed to the gain in earnings. The loan totals were higher by from 15% to 40%, with most of the nine institutions showing gains of 20% to 30%. Funds for the larger loan volume were provided from a number of sources.

Holdings of U. S. Government securities were reduced. At the same time lower reserve requirements and larger deposits increased the loanable funds.

The increase in deposits and the prospects for future gains in business resulted in several banks acquiring additional capital through the sale of stock. Bank of America and American Trust were two of the institutions which sold additional shares last year.

Thus while operating income showed substantial improvement, net earnings per share on the increased number of shares outstanding declined. This is shown in the following comparison of per share results for the past two years. Also shown are the current indicated dividend rate, the book value per share and the 1950 price range for the nine institutions.

	Operating —Earnings—		Current Div.	Book Value	1950 Price Range	
	1950	1949	Rate	Per Sh.	High	Low
American Trust (San Francisco)	$6.49	$6.53	$2.40	$67.04	$57	$49⅛
Bank of America	2.17	2.52	1.60	16.45	31¼	22
Cleveland Trust	47.61	45.78	10.00	400.02	372	300
Continental Illinois National	7.36	6.89	4.00	101.74	97½	85⅛
First National (Boston)	4.23	3.92	2.25	50.94	53⅞	45
First National (Chicago)	14.31	12.48	8.00	218.70	253	205
Mellon National (Pittsburgh)	19.04	18.67	11.00	349.24	320	270
National Bank of Detroit	4.43	3.82	2.00	44.27	42¾	34⅛
Security First National (Los Angeles)	8.33	8.10	3.25	81.50	74	63

With the market for bank shares being broadened through pension funds, savings banks and liberalized insurance and trustee investments, these institutions should enjoy a wider market for their securities. Although New York bank shares will continue to have wide acceptance, bank stocks outside of New York, because of past and prospective growth, may enjoy increasing popularity.

Waddell & Reed Add

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—William Barnes, James B. Broadbelt and Albert H. Moore have been added to the staff of Waddell & Reed, Inc., 8943 Wilshire Boulevard.

With Harland Allen

(Special to THE FINANCIAL CHRONICLE)

LA JOLLA, Calif.—George C. Layman is with Harland Allen Associates of Chicago.

Three Join Staff of A. M. Kidder in Miami

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla. — Constance E. Brouillet, Herbert T. McNichol and Harold M. Van Husen have become associated with A. M. Kidder & Co., 209-211 Southeast First Street. Mr. McNichol was formerly manager of the Miami office of Daniel F. Rice & Co., with which firm Miss Brouillet was also associated.

Continued from first page

As We See It

day or two before directed that the labor members of the Wage Stabilization Board resign because labor was not ready to accept a so-called wage stabilization decision reached on Feb. 14.

Labor's Politburo

The power and some of the significance of the existence of this, labor's Politburo, may be briefly indicated by a Washington dispatch appearing late last week from the pen of the labor specialist of the New York "Times." Says Mr. Stark:

"Labor's rebellion against the wage policy adopted by the industry and public members of the Wage Stabilization Board has dramatized the power, significance and authority of labor's comparatively new 'general staff.'

"Fourteen top leaders of the American Federation of Labor, the Congress of Industrial Organizations, the International Association of Machinists and the Railway Labor Executives Association directed the three labor members of the tripartite labor board to send their resignations to President Truman.

"These leaders formed the United Labor Policy Committee last December to act as liaison between labor and the government on problems arising out of defense mobilization and wage-price stabilization.

". . . Labor now made unparalleled strides. The fourteen members adopted rules, named officers, drew up a budget, engaged quarters, printed stationery and took all steps to insure an efficiently functioning organization.

"Once this was done the members met frequently and drafted policy on wages, prices, manpower, taxation and rent control. All decisions were unanimous. This more than anything else brought the AFL and the CIO closer than anything that has happened since their historic split in 1936. Every aspect of the United Labor Policy Committee's work is geared for quick decisions during the emergency.

"The driving power behind the united committee was the primary determination to save labor's social gains, to have a voice in defense policy decisions and in their administration. With this goal in mind the big labor federations and organizations were prepared to hand on to the 'general staff' unusual powers."

In the face of all this, labor leaders have the hardihood to say to the American public: "Let no one doubt that labor is willing to bear its share of sacrifice." One must be excused for wondering what sacrifice union officials are prepared to have their membership shoulder. Determination not to bear any which may stem from a rise in the cost of living greater than in wage rates is clear not only from the pronunciamento of the automobile workers, union, but from various other indications of policy, including the retirement of the labor representatives from the Wage Stabilization Board. Since urgent defense operations will almost certainly afford opportunity to earn substantial amounts from overtime work, and will almost as certainly result in a good deal of "upgrading" and the like, it would appear that in some instances at least the unions are demanding that their members be permitted to gain something from rearmament. They complain that credit control and the higher taxes in effect and in prospect may compel at least some wage earners to reduce consumption—which may be true but which may not be true if labor continues to gain the concessions it demands.

Some Things to Complain About

But, of course, whatever we may think of the demands of the unions — and we, for our part, certainly do not endorse them — and whatever may be the disgust with which the ordinary American citizen must read of some of the Politburo type of tactics now all too common, it has to be admitted that at certain points labor as well as all the rest of us has a case. If the unions were to concentrate their attacks upon removal of some of the obviously unreasonable and unfair favoritism rather than upon demands for equality of favoritism, it is certain that a great many now inclined to look coldly upon the leaders of organized labor would be standing by their side in the fight.

One of the most obvious of the just complaints of the unions, and of all the rest of us, for that matter, is the tender care with which the farmer is dealt with. There is absolutely no more reason why the agriculturist should be regarded as *sui generis* than there is that the wage earner, merely because he belongs to a politically powerful union, should receive special consideration. Truckling to the farmer began many decades ago. It was nourished by an unwillingness of the remainder of the community to forego special favors it received in the form of import duties to keep out competition and to hold prices up. Then as now, there were all too many who found it more to their liking to grant concessions to the farmers than to give up their own favors in order that all might be on an even footing.

And the Farmer!

But whatever the long-term history of farm subsidies —whether or not called by that name—real cultivation of the farm vote began with the New Deal and grew to startling proportions during World War II. The evil is still very much with us, a half-decade or more after V-J Day, and more than a half-year after we were plunged into another "emergency" which could develop into real trouble. If there has been any major appeal to the farming community to share in the universal sacrifice often mentioned in the abstract, we can not recall it at the moment, and the fact is, of course, that we can not hope to prevent further drastic increases in the cost of living if farmers are not only to be permitted but aided and abetted in raising their prices. Of all the favorites during World War II, the farmers were, perhaps, the most favored. Why should not the union leaders make a vigorous and open fight on this situation?

There are, of course, many other things about which the unions, along with all the others of us, can justly complain — waste, inefficiency, needless regulations, gross waste of public funds on non-deserving veterans and much more of a like sort, which makes extraordinarily heavy taxes unavoidable. We wish that the union leaders would fight against all this rather than seek special favors for their members.

Continued from first page

What's Ahead in 1951?

the implications of this program are enormous. No one can foresee all of the repercussions, but some of the handwriting on the wall is pretty clear.

There is, of course, the immediate problem of getting the right kind of mesh between the increases in military output and the decreases in certain kinds of civilian output which will take place. It would be overly optimistic to assume that this shifting process will go along without any major errors or pain. I am sure that there will be difficulties with spot unemployment and very irregular flows of raw materials. But if you expect the worst, I believe that you will be very pleasantly surprised. A pessimist will harp on the difficulties and overlook the smoother spots. An optimist will point to the large area of smooth transition and the remarkably small area of spotty troubles. It is all a matter of perspective. I am an optimist myself and expect the transition problems to be short-lived and fairly easy to take.

With those few remarks I would like to leave the problem of transition difficulties to move on to the situation when the military program will really be rolling. It is given to no one to make accurate forecasts of things to come, but I think it is appropriate and useful to weave a pattern of what may happen on the basis of what seem to be sensible assumptions.

Patterns of Development

I have been working on some possible patterns of development out to the end of 1951, using a broad brush, of course, to paint the picture. I would like to give you 13 major conclusions for 1951:

(1) **The physical volume of production of goods and services will be up about 5% by the end of the year.** This includes manufacturing, mining, agriculture, and services of all kinds included in the government figures on gross national product. I do not mean to suggest that all kinds of production will be higher, but the total for the country—allowing for increases in some groups and decreases in others — will be up about 5%.

This increase reflects several factors. More people will be working than ever before. The work week will be growing steadily longer and I hope that the unit output per worker will be rising in spite of the various obvious difficulties.

The increase in output may be even larger than the 5% I have mentioned. The economic report of the President's Council of Economic Advisers speaks of an increase of around 7% during the present calendar year. I consider this on the optimistic side but it may work out that way.

The gross national product stood at an annual rate of over $300 billion at the beginning of 1951. An increase of 5% in physical production would bring it to around $320 billion at the year-end. Price increases would raise it even further, perhaps to something above $330 billion (annual rate).

(2) **Shortages of raw materials will represent a severe bottleneck.** It comes as somewhat of a shock to learn that this great industrial country is running low on raw materials but this fact was becoming apparent even before the Korean War broke out and stepped up the timetable of our shortages.

I believe that the situation may be stated quite simply. As a nation we have been increasing our ability to consume faster than our ability to produce or import raw materials. This, of course, is not true of all raw materials, but it is true of raw materials as a class. In some cases, we have not increased our raw material facilities from the peaks reached back in the 20s. This is true of some of the nonferrous metals, notably copper, lead, and zinc. In others we have increased capacity in recent years but not enough to satisfy demands. Steel capacity, for example, has been enlarged more than one-fourth in the last decade, but manufacturing output as a whole has almost doubled during this period. Aluminum capacity has been multiplied fourfold in the last decade, but civilian use of aluminum is being cut back one-third because of inadequate supplies. There are also some severe shortages in the case of certain industrial chemicals.

These difficulties are likely to cause a considerable pinch in 1951. A great search is going on to improve supplies in many cases and I am hopeful that by the end of the year things will look better on the raw material front. I also want to remind you that American businessmen show great ingenuity in using substitutes and in stretching short supplies generally. However, it seems inevitable that raw material difficulties will be a limiting factor in 1951.

(3) **The labor force will constitute another bottleneck, particularly skilled labor.** We have been setting new records in the number of people employed and the 59 million figure for January of this year was the highest January employment ever reached. Unemployment in January stood at 2½ million.

We know that many more people are going to be needed for the military services and for military production. In round numbers, perhaps 5 million more people will be needed for these purposes by the end of this year. The normal annual growth in the labor force of 600,000 or 700,000 and some reduction in unemployment will meet part of these needs. The labor force, of course, will also be increased as more women go into the factories and some older persons come out of retirement to work. These sources will not take care of all of the needs, by any means, however, and there will have to be some extensive shifts out of some less essential jobs to meet requirements. This should not be too difficult, speaking in general terms, because many of the non-manufacturing industries have increased their employment tremendously in recent years and presumably would not be pinched too greatly if there were some reverse shifts. The number of workers in construction for example, is 1¼ million higher than five years ago. As construction is now cut back, many workers will be made available. Similarly, there are now about 10 million persons engaged in trade compared with eight million five years ago. Some reductions ought to be possible here without too much disruption.

Perhaps the worst pinch in the labor situation will be in certain classes of skilled labor. We need to increase our training facilities to ease this problem as much as possible.

On the whole I do not view the labor bottleneck with the same degree of seriousness as the raw materials bottleneck. We shall probably find that the labor supply is fairly adequate for our needs, short of full-scale war in which the pinch would again be extreme. We have far more leeway in drawing on people than we have in drawing on short supplies of raw materials.

I also want to mention again the matter of increasing the work week. It should certainly be possible to increase the work week by from two to four or five hours in the industries which are pinched. Some industries worked as much 50 hours a week at the peak during the war and I think that a few hours more now would be both feasible and very helpful. It also seems to me that it would be desirable to change the law requiring premium pay after 40 hours of work. That was a depression idea which is incompatible with today's inflationary environment.

(4) **The Federal government will be taking about one-sixth of the national product at the end of the year.** At the beginning of the year, the ratio was about one-tenth. In other words the Federal government is going to increase its take of the total production pie

from about 10% to about 16%. Put this way, the increase seems moderate enough, but, of course, each percentage point that the government takes put a lot more pressure on civilian production. It is fortunate that we will be able to increase total production during this period because otherwise the increase in the government ratio would be much higher than I have indicated.

The picture at the end of 1951 will contrast sharply with the situation during World War II. At the peak of the war, the Federal government took about 45% of the gross national product compared to the 16% which seems probable for the end of this year. Of course, the 16% ratio may move still higher next year, but it will not move up anywhere near the high of World War II unless a full-scale war breaks out.

(5) **Federal taxes will be up sharply, but not enough to avoid a deficit and sizable Treasury borrowing.** The President has asked for a $10 billion tax bill as a first step to avoid the estimated $16½ billion deficit for fiscal 1952. A second-step bill for the remaining $6½ billion is contemplated.

I am in no position to predict the ultimate outcome of these particular proposals. It does seem perfectly clear, however, that we are a long way from actually having them adopted. It will probably take months for the first-step bill to be completed, and then I would guess that it will have been compromised to a smaller figure than $10 billion. The proposed second-step bill may be expected to have the same fate and perhaps even more so—i.e., it may take even more months to get adopted if it is pushed through at all this year, and it is likely also to be compromised downward to a smaller figure. Everything considered, I would hazard the guess that we will not find the new tax bills this year raising more than $10 or $12 billion.

As a matter of fact, I would be inclined to feel that $12 billion of new taxes would be a pretty satisfactory achievement. True it would not match the budget deficit of $16½ billion, but the difference would be about made up by a surplus of revenues in the government trust funds. In other words, the consolidated budget and trust fund picture would be approximately balanced.

What I have just said ignores the question of lags between the enactment of new taxes and the actual cash payments to the Treasury. Taxes enacted this year are not going to be paid in full for some time ahead. Accordingly, Treasury borrowing would be necessary during the interim even if the budget were being balanced theoretically by new taxes.

Predicts New Treasury Borrowing

Taking all these things into consideration, the Treasury is going to have to borrow a sizable sum toward the end of the year. In that connection I would like to say that I think the Treasury should have two goals in mind in doing its borrowing: 1st, to encourage saving by the people, and 2nd, to encourage the investment of savings in government securities. The first objective is more important than the second. I believe that extensive sales campaigns by the Treasury are needed to sell savings bonds. Such campaigns should be limited to individuals and should not include big institutional investors as was done in the vast war. Savings bonds have been standing still more or less in recent months, but I believe that large amounts of savings bonds can be sold if big campaigns are carried on. It must be remembered that the ability to save will be growing larger and larger as time passes.

(6) **The civilian portion of gross national product will be reduced very slightly.** Civilian supplies of some goods and services will be cut very sharply as we all know. Some other categories will rise. The net result will be a small reduction in the aggregate for civilian use.

I expect the dollar spending of the civilian sector (individuals, business, and State and local governments as a group) to run about the same in the aggregate at the year-end as at the beginning of the year. Because of somewhat higher prices, the total volume of physical units will be slightly lower.

(7) **National income will be up considerably with the biggest part of the increase going to consumers.** As the gross national product rises, national income will rise too. The increase will reflect both a real increase in physical output and a further increase in the price level.

Most of the increase in national income will go to individuals and very little of it will go to corporations. Corporate profits before tax will be pinched in several ways and will probably not share proportionately in the gain in national income. They may even decline if inventory profits do not continue at the recent extraordinarily high levels.

(8) **Consumers will pay more in taxes, will save more, but will also spend more.** The total income of individuals will be up something like 8 or 10% by the end of the year when it will be running at an annual rate in the neighborhood of $260 billion. Personal taxes will be up by some indeterminate amount and probably will run in the magnitude of $30 billion (annual rate). Income after taxes will therefore be running at an annual rate of $230 billion approximately— or considerably in excess of the rate at the beginning of the year. Consumers, therefore, will have more money coming in to be used either for spending or for saving. I believe that they will increase their saving sharply under the stress of various factors, including the lack of durable goods for sale and the patriotic appeals to save in a period of national emergency. Savings may run up to 9 or 10% of income after taxes compared with the current figure of about 6%.

Expenditures by consumers will also rise somewhat notwithstanding shortages. The physical units purchased by consumers will be practically unchanged in the aggregate from the beginning of the year, but prices will be somewhat higher raising the total dollar figure for consumer spending.

(9) **The composition of consumer spending will be sharply altered in favor of soft goods and services.** As curtailments of metals get into full swing the supply of consumers' durable goods, such as automobiles, refrigerators, electrical appliances, etc., will drop sharply. Some pinch is already being felt but the full impact of the reduced supply will not be felt for some time. By the end of the year I expect consumer spending on durable goods to be reduced by about one-quarter to one-third from the level at the beginning of the year.

At the same time spending on soft goods and services will rise steadily as consumers endeavor to find substitute outlets for their spending to replace the shrinking supply of durable goods. Manufacturers will attempt to tap the growing market for soft goods even though shortages are a problem here too, particularly in the case of cotton and wool. The cotton problem will be eased materially by the end of the year if the new cotton crop is large, but there is no improvement in sight for the wool shortage.

Soft Goods Prices Will Rise

All of this means that there will be natural upward pressure on prices in the soft goods area even though price controls are in effect. This raises the question of whether the dikes will be thick enough. Also, it should be noted that the greater willingness to buy will lead to greater demand for higher price lines and less resistance to substitutes.

(10) **Residential construction will be off sharply.** The residential housing boom is about over even though the melody lingers on. The boom is being squeezed from several directions all at once, particularly the tightening of mortgage credit and the limitations on the use of materials. The restraints were started as early as last summer, but there was a big backlog of projects which got in under the wire and are still being finshed up. By the end of the year residential construction will be running very materially below the first part of the year. The proposed defense housing program will add some new projects, but a sharp cut in residential housing starts seems inevitable.

(11) **Business investment in plant and equipment will hit a new high early this year and then turn downward under the pinch of controls and shortages of important materials.** Early surveys indicated that 1951 would see the highest volume of business investment in plant and equipment ever reached. Subsequent developments indicate that business desires to expand will be thwarted considerably by the needs of the defense program. Accordingly, business projects henceforth will have to meet the test of whether they (a) contribute to the defense program, or (b) contribute significantly to the output of basic necessities, including, of course, the all-important industrial raw materials. If they do not meet these tests, projects for business investment in plant and equipment will not be permitted to be undertaken as a general rule. Many such projects are now in process and when these are completed I expect to see total business investment fall off considerably, and this will be evident by the end of the year.

(12) **Inventories will level off.** We have been in the midst of a great inventory boom along with several other coincident booms. The sharp rise in bank credit in the last six months is due primarily to the large increase in business inventories. Some of this simply reflects higher prices. But business men have also been trying to build their stocks to get ready for a period of rising demand in the face of many shortages. The inventory rise is not likely to go much further for several reasons: (1) some inventories are getting so large that there is apprehension over the possibility of being overextended; (2) the pinch of supplies in some cases means that it will be hard to build inventories further; and (3) the effect of price controls will reduce speculative buying. It should be noted that much of the recent increase in inventories makes good sense from the point of view of public policy. It was logical to use our productive facilities to the utmost pending the substantial diversion of them to military uses.

(13) **Inflationary pressures will continue to rise but prices will be kept under reasonably good control.** Aggregate demand will be rising faster than aggregate supply this year which means that inflationary pressures will be growing. Counter-inflationary measures are not likely to be adequate to prevent this. However, I expect that the network of physical controls will be reasonably effective for the most part, so prices will not rise very much. This may seem inconsistent with the idea that inflationary pressures will be growing. The explanation lies partly in the matter of timing. Controls will work for a limited period in sterilizing inflationary pressures, but they do not provide a permanent solution, so the fundamental pressures may be growing even though prices do not reflect this by rising. This is the reason it is so important to adopt adequate budgetary methods to counteract inflation by reducing nonessential government expenditures to the point where it really hurts, and by increasing taxes, particularly those taxes which help to restrain spending and to encourage saving.

Controls may be a useful crutch and an absolutely essential one at times, but there is an old bit of philosophy to the effect that a crutch may also keep you from getting well.

Summary

Now let me summarize these points regarding the economic situation in 1951:

(1) The physical volume of production of goods and services will be up about 5% by the end of the year.

(2) Shortages of raw materials will represent a severe bottleneck.

(3) The labor force will constitute another bottleneck, particularly skilled labor.

(4) The Federal government will be taking about one-sixth of the national product at the end of the year.

(5) Federal taxes will be up sharply, but not enough to avoid a deficit and sizable Treasury borrowing.

(6) The civilian portion of gross national product will be reduced very slightly.

(7) National income will be up considerably with the biggest part of the increase going to consumers.

(8) Consumers will pay more in taxes, will save more, but will also spend more.

(9) The composition of consumer spending will be sharply altered in favor of soft goods and services.

(10) Residential construction will be off sharply.

(11) Business investment in plant and equipment will hit a new high early this year and then turn downward under the pinch of controls and shortages of important materials.

(12) Inventories will level off.

(13) Inflationary pressures will continue to rise but prices will be kept under reasonably good control.

I would like to close with a word about the longer-run future. I have concentrated today on what's ahead in 1951—the year of transition. Beyond that, the future is very uncertain. No one knows how long or how far the military program may have to go. If we can avoid all-out war, and I think our present programs are in the right direction to accomplish this, then I wonder if it is too optimistic to suggest that 1951 will turn out to have been the year of the worst pinch.

We may have to look forward to a military program of $50-$60 billion a year indefinitely. It is well to remember, however, that we have an enormous facility for economic growth. Our technical "know-how" all along the line is so great that we can improve and enlarge our productive capacity in a most remarkable way. The decade of the 1940s was our biggest period of industrial growth so far. We have started the 1950s at a still higher rate. As we grow, we can carry a large military program with less and less strain. Some of the controls can be dropped from time to time. The burden of taxes can be lessened—not by lowering the dollar collections, but because taxes will be levied against a growing national income.

Production is the key to the future. As we increase production we will not only improve our immediate situation at home, but we will show our enemies and our skeptical friends abroad how strong we really are.

Lester F. Gannon With W. T. Bonn & Co.

Lester F. Gannon

Lester F. Gannon, who for many years was with W. H. Bonn & Co., Inc., 120 Broadway, New York City, has rejoined them as Manager of their Trading Department.

Firm Name Now Dallas Union Securities Co.

DALLAS, Tex.—The firm name of the Dallas Union Trust Company, Dallas National Bank Building, has been changed to Dallas Union Securities Company.

John Speed Elliott

John Speed Elliott died Feb. 12 at the age of 61. Mr. Elliott, who recently conducted a personal investment business from offices in New York City, in the past was a member of W. A. Harriman & Co., Inc., and August Belmont & Co.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York (STANY) Bowling League standings as of Feb. 16 are as follows:

Team—	Won	Lost
Donadio (Capt.), Demaye, O'Connor, Whiting, Workmeister	7	2
Greenberg (Capt.), Sullivan, Stein, Wechler, Siegel	5	4
Bean (Capt.), Kaiser, Growney, Gronick, Rappa	5	4
Buria (Capt.), Manson, King, Voccoli, G. Montanyne	5	4
Mewing (Capt.), Klein, Flanagan, Manney, Ghegan	5	4
Leone (Capt.), Krasowich, Nieman, Pollack, Gavin	5	4
Goodman (Capt.), Casper, Valentine, M. Meyer, H. Frankel	4	5
Krisam (Capt.), Bradley, Montanyne, Weissman, Gannon	4	5
Serlen (Capt.), Gersten, Gold, Krumholz, Young	4	5
Hunter (Capt.), Lytle, Reid, Kruge, Swenson	4	5
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	4	5
H. Meyer (Capt.), Smith, Farrell, A. Frankel, LaPato	2	7

On February 20 we will be in Philadelphia and the results of that meet will be published next week.

Continued from page 7

Bank Lending in Defense Economy

responding cutbacks in loans for nonwar purposes, and total business loans declined in 1942, while loans for war purposes mounted rapidly. Our situation today resembles more closely the conditions in 1941-42 than at the beginning of the defense effort in 1939. At the start of our accelerated defense program in 1950, industrial production was near capacity; we had few idle men or idle machines. This portends substantial cutbacks in civilian production in the not very distant future. On the financial side, the working capital position of American industry today is considerably more favorable than it was prior to World War II, and we have already experienced a rise of more than 30% in business loans since mid-1950.

Government policy will have an important bearing on how the requirements of the defense program will be financed. In the present defense effort, as in World War II, the V loan program is available in order to provide working capital to businesses engaged in defense production. At their peak, V loans comprised about two-thirds of estimated loans for war purposes but less than 30% of the total commercial and industrial loans of insured commercial banks. In World War II, furthermore, the working capital requirements of defense contractors were reduced by the government's policy of advance and partial payments. A similar expeditious handling of defense payments would have comparable effects this time. In any event, the credit needs of defense contractors must be met, either by the banks or by the government.

In the last war a tremendous defense plant program was financed largely through government funds. Business apparently intends to rely more heavily upon private financing this time, taking advantage of the accelerated depreciation permitted under certificates of necessity. Nevertheless, the volume of plant financing done through the commercial banks in 1951 may be relatively modest.

Fairly restrictive policies may be applied in passing on requests for certificates and these may limit the size of some plant programs. Shortages of materials and machinery will delay others, and nonessential industries may find themselves unable to obtain materials and machinery in short supply. Also, business corporations will have large amounts of funds available from reinvested profits and non cash expenses, and this will reduce the need for outside financing. Furthermore, borrowers may be able to raise capital through offerings on the securities markets or by direct placements for longer maturities and at an interest cost not appreciably higher than on term loans from banks.

Conclusion on Loan Outlook—All this suggests that bank loan expansion is not likely to be a formidable problem in 1951. In the case of consumer and real estate credit, the production outlook indicates that the loan peaks are close at hand. The volume of loans on stock exchange collateral is not important and can be controlled by selective credit measures. Agricultural loans may show a modest increase in view of the greatly enlarged production goals.

Business loans may show some increase during the year, but the big rise appears to be behind us and the further growth in these loans is likely to be closely related to the defense effort. Liquidation of commodity loans and perhaps of some inventory loans will help to offset further increases for working capital and other purposes during the first half of the year. The latter half of the year may bring a seasonal rise in loans but by that time direct controls over the economy are likely to be fairly general. These will help restrain loan advances and together with rising defense output will have the general effect of curbing loans for non-defense purposes.

However, even though present prospects are against any large and sustained rise in business loans through 1951, we cannot thus beg the question whether any significant expansion in such loans adds to the inflationary pressures in our economy.

Business Loans and Inflation

Perhaps the major differences of opinion regarding the inflationary effects of business loans revolve around matters of relative importance and emphasis. Even under normal conditions, there is a close similarity in the movements of business inventories, commodity prices and business loans. When business is rising, business inventories tend to grow and part of the increase is financed by bank borrowings. A rise in business loans increases the money supply and provides borrowers with funds with which they may compete for scarce materials. If liberal lending policies enable hoarding of inventories in a time of shortage, there is little doubt that their effect is to raise prices, and thus may be called inflationary.

On the other hand, it would be inaccurate to assign to business loans major responsibility for the inflationary conditions that have prevailed in the economy over the past decade. For years we have witnessed an over-emphasis upon the credit aspects of inflation, and particularly upon the alleged contribution of bank lending to inflationary pressures. The postwar years provide an interesting example of this economic myopia.

Admittedly, there have been times in the past when bank credit has contributed to speculative excesses and inflation in the prices of securities, real estate and commodities. But our postwar inflation was not a speculative spree financed by the abuse of bank credit; it originated in basic forces permeating our entire economy. The inflationary pressures reflected the general shortages and scarcities following the end of the war; the large and widely distributed liquid assets which arose out of the financing of World War II and which contributed to high postwar consumer spending; the inflationary policies of the Government in its agricultural price support programs and its loan and guarantee operations, notably in the field of housing. Also, there were persistent shortages of some basic raw materials. Finally, full employment, together with the increased power of labor unions and the support of the Government, led to repeated rounds of large wage increases and other additions to industrial costs.

Thus the price inflation which followed the breakdown of price controls in 1946 was largely an inevitable adjustment to the higher money supply and vastly increased holdings of liquid assets arising out of World War II. Under these conditions, to have prevented or severely limited business loans would have had no significant effect on the postwar price rise; in fact, such a policy might well have slowed down the expansion in industrial production which was necessary to meet the existing shortages. There was no significant use of bank credit for speculative business purposes, and the big postwar inflation came largely to a halt in 1948 without a credit crisis.

The sharp increase in prices after the outbreak of the Korean War was a war-scare phenomenon which no amount of credit controls could have prevented. The most striking price rises, especially in raw materials, can be explained by the expectation of reduced supplies in the face of a greatly augmented military program. Large holdings of liquid assets and high levels of personal income enabled consumers to go on a buying spree, and this was reflected in a sharp rise in business orders. The barrage of news releases from Washington forecasting price control in the near future certainly did not discourage business from raising its prices before the "freeze." In other instances, wage increases were a contributing factor.

Although data are not available, a substantial portion of the sharp rise in business loans in the latter half of 1950 presumably reflected inventory accumulation. But to assign to this factor major or even significant responsibility for higher prices seems unrealistic. All the experience of recent years strongly indicates that business loans can hardly be regarded as a really significant inflationary factor.

The underlying inflationary forces will most likely continue to prevail. They are deeply rooted in a rising defense budget, the lack of economic realism in our fiscal and taxation policy, the need to expand our productive capacity to the utmost, the rising levels of personal income in the face of a declining volume of consumer goods, and the political power of the labor unions and the agricultural bloc. These forces are much too powerful to be checked by credit policy.

This does not mean that we may ignore the problems of lending and credit policy in a period of inflation. Bank lending standards need to be tightened, and not relaxed, to the end that bank credit will not add to the abundance of inflationary pressures already in existence. But credit policy designed to restrain bank lending must not prevent the banks from continuing to play their important role in meeting the credit needs of American business. How to attain these objectives is a major problem facing the financial community.

The Interest Rate Controversy

The conventional method of restraining bank lending is for the Federal Reserve to reduce the amount of available bank reserves through open-market sales of Government securities or increases in reserve requirements and to raise the cost of bank reserves by increases in the rediscount rate. The use of these devices is generally reflected in a tightening of the money market and a rise in short-term interest rates, including yields on Government securities.

The Current Differences — For many years, the Federal Reserve has been limited in its use of these instruments by the desires of the Treasury to maintain a good market for its obligations and a low level of interest rates. In August, 1950, however, with the post-Korea inflationary boom in full swing, the Federal Reserve went counter to the wishes of the Treasury and permitted an increase in the yields on short-term Treasury obligations.

In this action the Federal Reserve received widespread support from those who contend that a higher level of interest rates and lower support prices for government obligations would make the commercial banks less anxious to sell governments in order to finance an increase in loans and would make the institutional investors less eager to expand their holdings of mortgages or corporate securities by disposing of government bonds. Some people also argue that higher interest rates would encourage the purchase of government securities and help fight the growing fear of inflation.

The Treasury has not been impressed by these arguments. Its view is that higher interest rates are not effective in curbing inflation, but that they do increase the carrying cost on the public debt and complicate its financing program. On Jan. 18, 1951, the Secretary of the Treasury announced that refunding and new money issues would continue to be issued on a pattern of interest rates based on a 2½% rate on long-term government bonds. The application of this dictum to credit policy was elaborated in the Secretary's further contention: "The delusion that fractional changes in interest rates can be effective in fighting inflation must be dispelled from our minds."

Despite attempts to reconcile the conflicting positions, including a conference between the President and the Federal Reserve Open Market Committee, there are many signs that the basic difference of convictions still remains. It is a foregone conclusion that we have not heard the final word on this subject. Congressional hearings will be held at which the conflicting points of view will doubtless be discussed.

The Middle Course—It is most unfortunate that this controversy has been so persistent, especially since there are many points on which all parties really agree and there is a middle course of action to which most men of moderate views could subscribe. There is no difference of opinion as to the necessity of maintaining orderly conditions in the government securities markets and of preventing gyrations in prices of government securities which might undermine public confidence. However, orderly conditions can be maintained without going to the extremity of preventing any fluctuations in the prices of government securities or of forestalling any changes in the levels of interest rates. Minor changes in the market prices of government securities do not indicate the ebb and flow of public confidence in the credit of the United States.

The recent record of interest rate policy, moderately employed, is by no means discouraging. During the postwar years, the Federal Reserve maintained general stability in the government securities market, yet it was able to pursue a mildly restrictive credit policy and to obtain some increase in short-term interest rates. It is impossible to prove the effectiveness of this postwar credit policy by recourse to banking statistics. But it does seem fair to state that the postwar credit policy did contribute to a feeling of caution among commercial bankers; it served to keep before bankers the necessity of exercising prudence and care in lending policies; and it helped to emphasize the importance of liquidity and spaced maturities in the management of bank investment portfolios.

If the Federal Reserve System is to continue to exercise this influence upon credit conditions, it must have some freedom of action in interest rates, especially in short-term rates. Whether a further increase in short-term interest rates is actually desirable or feasible at the present time is a question that may properly be left for determination by the Federal Reserve System.

One of the crucial points in the recent discussion has been the question of maintaining the 2½% rate on long-term government bonds. Here again a moderate policy could have avoided some of the controversy. It should be possible to make government bonds more attractive to institutional investors by offering them limited amounts of securities carrying coupon rates higher than the present 2½% maximum, but with maturities sufficiently long to keep the rates in line with the present pattern of yields. Since this would not involve an across-the-board rise in interest rates, the net increase in the carrying cost of the public debt would be small.

A moderate point of view would also give due recognition to the limitations of credit policy. It would recognize that inflationary forces are deep-rooted and powerful and that the contribution of credit policy must be marginal. Past experience demonstrates that if we are to rely upon credit policy as a major tool we must adopt extremely restrictive measures, force a very much higher level of interest rates than prevails today, and incur credit liquidation, unemployment and loss of production. Also, changes in interest rates will not contribute to a more desirable utilization of labor and materials in the economy of scarcity with which we are faced. Higher interest rates will not restrain less urgent types of residential or commercial building or channel scarce materials and industrial machinery into projects that are more desirable under present circumstances. To achieve these purposes we must depend on direct controls, with all their faults and deficiencies.

Nor is it likely that a rise of interest rates would by itself stop the inflation psychology, induce skeptical investors to buy more government securities, or restrain consumers from trying to spend their money while goods are still available and before quality goes down and prices go up. A realistic tax policy embodying reductions in mass buying power, a substantial cut in nondefense government spending, and an honest effort to apply direct controls on the basis of economic realities rather than political expediency—in short, a straightforward, realistic and sincere program of coping with inflation—is the only way to stem the growing fear concerning the future of the dollar.

New Instruments for Credit Control

The limitations inherent in the use of interest rate policy first became evident in the postwar period; recent developments have served only to call renewed attention to the basic problem involved in trying to apply restrictive credit measures without raising the yields on short-term government securities. In order to cope with this dilemma, several proposals have been made to grant the Federal Reserve new powers of credit control. Perhaps the best-known of these is the special reserve plan.

Features of the Special Reserve Plan—Under this plan, the Open Market Committee would be empowered to require commercial banks to hold against their deposits, in addition to cash reserves, special reserves in the form of short-term government obligations or cash items. The requirements would apply to all banks accepting demand deposits, including non-insured as well as insured commercial banks. By increasing these special reserve requirements, the monetary authorities could freeze large amounts of government securities in the banks, prevent them from selling these securities to the Federal Reserve banks in order to support an increase in loans, and thus presumably place an

effective ceiling on the aggregate volume of bank loans.

Such a plan would appeal to the Treasury since it would provide a large and dependable market for short-term obligations on which the Treasury would be able to set very low rates of interest. Thus, the plan would make it even easier for the Treasury to do its financing through the banking system. Financing a Treasury deficit through the commercial banks has the same effect on the volume of bank deposits and on the money supply as an increase in bank loans. To enlist the support of member banks it is stated that the alternative to the special reserve plan is a further increase in required cash reserves on which no earnings would be realized.

The special reserve plan is one of a number of similar and related proposals advanced in recent years. This particular plan was proposed by the Federal Reserve Board in December, 1947; several members of the Federal Reserve Board have presented it for consideration in public addresses since then; and newspaper accounts suggest that it is now being restudied in Washington. The plan did not receive serious attention in 1947, but it fits in so nicely with the current trend toward regimentation of the economy that some effort may well be made to bring about its adoption in the near future. While differing in detail, the special reserve plan is based on principles very similar to those underlying other measures of control over commercial bank lending adopted by several other countries during World War II and still in effect. Bankers and businessmen would be well-advised to study the 1947 proposal as embodying a line of thought of which we have not yet heard the end.[1]

Possible Effects of the Plan — The possible effects of the special reserve plan would depend upon the specific provisions of the particular plan adopted and upon the manner in which it is administered. Furthermore, much would depend on the aggregate demands for private credit. If the demands for bank credit are likely to taper off, then the impact of the plan would be lessened, but by the same token there would be no need for such an expansion in the power of the monetary authorities. To the extent that requirements for bank credit will rise further, this plan would have a number of extremely undesirable effects.

Like any plan for credit control involving the use of reserve requirements, the special reserve plan would have harsh and uneven effects on the banks. It would penalize those banks which have been most active in the very function they are designed to perform, namely, meeting the credit needs of the business community. No consideration would be given to the great differences which exist in regional conditions, bank capital positions, and requirements for liquidity. The detailed effects would be extremely far-reaching. There are, however, some general consequences which should be noted briefly.

If the plan were so effective as to prevent any substantial number of commercial banks from meeting the real credit requirements of their customers, the result would be concerted attempts to make funds available from other sources. Large business borrowers doubtless would find it possible to shift their financing to the securities markets or to institutional investors directly. Small business, however, would be hit harder. The effects of a drying up of bank credit would be most serious in the case of smaller concerns that have only a single or a limited number of banking relationships and are not in a position to sell securities on the open market or to make direct placements with institutional investors. One result would probably be a drive to expand the functions of government lending agencies.

It is also likely that the regimentation of commercial bank lending via the special reserve plan would be accompanied, or shortly followed, by control over financing by means of securities issues and direct placements. At least that has been the experience in other countries where capital issues committees and similar devices were employed to supplement the controls over the commercial banks. Also, some of the most ardent advocates of the special reserve plan would require other financial institutions (e. g., life insurance companies, savings banks, and savings and loan associations) to hold a certain proportion of their assets in government securities in order to prevent them from selling in a market supported at pegged prices by the Federal Reserve.

Program for Voluntary Credit Controls

Recent months have witnessed another approach to the problem of restraining the expansion of credit under inflationary conditions. This is the program for voluntary credit controls initiated in December, 1950, at the behest of the Federal Reserve Board. Representatives of the commercial banks, investment bankers and life insurance companies were invited to cooperate in formulating a program of credit control suited to inflationary conditions. This is the first time that these diverse groups have met in such a joint venture. It is tangible evidence of the fact that credit policy during an inflation cuts across institutional lines and includes broad segments of the financial community.

There is little doubt that members of the financial fraternity agree in principle with the desirability of a more restrictive lending policy under inflationary conditions. One of the practical problems is to get some agreement as to types of loans which should and should not be made. This involves establishing a classification under which certain types of loans would be classified as necessary or desirable or noninflationary. These would probably include loans for defense production; loans for the production, processing and orderly distribution of essential goods; loans for additions to working capital necessitated by higher wages or prices; temporary loans to security dealers in the normal conduct of their business; loans in response to previous commitments; or loans guaranteed, insured or authorized by a government agency. Other classes of loans would be regarded as unnecessary and inflationary, unless modified by special circumstances. These would include loans for acquisition or retirement of securities held by the public; loans for the purchase of existing companies or plants; loans for speculative investments or purchases, including speculative expansion of real estate holdings or plant facilities or speculative accumulation of inventories for purposes of resale instead of use.

Having arrived at some agreement on a basis of classifying applications for loans, the next problem is to make the information available to the financial community, to develop some technique for interpreting the standards and applying them to the special situations as they arise, and to enlist the cooperation of all parties in a real effort to obtain adherence to the plan.

It is impossible to guess how effective this policy will be. Any lending standards of necessity will have to be couched in general terms and their application to a particular situation will involve the exercise of judgment by the individual lender. Nor will the statistics on capital issues or bank loans provide very convincing evidence; conceivably the plan may be entirely successful in spite of a relatively large volume of new financing or an increase in bank loans. We cannot have rising production, tremendous plant programs, and full employment without some reliance upon outside credit for business.

Much will obviously depend on the seriousness with which the financial community undertakes the responsibility or holding down new financing, whether by bank loans, new issues, or direct placements. It is to be hoped that the groups involved will give their sincere, wholehearted and vigorous support to the general spirit and intention of the program as well as to the letter of the statements or regulations to be promulgated. The members of the financial community have an opportunity and an obligation to police themselves against relaxation of lending standards in these difficult times. Only thus can they forestall agitation for new and powerful measures of control over the money and securities markets.

Some Conclusions for Policy

In these areas of bank lending and credit policy we are dealing with some of the most complex, difficult and deceptive problems of economics. There is a tendency to overrate bank lending and credit controls as causal factors in explaining changes in economic conditions and prices. Today this is reflected in the fairly widespread acceptance of credit restraints as one of the major tools of anti-inflation policy.

The thesis of our analysis, however, is that business loans are of minor importance in explaining current inflationary movements of prices, and that the available credit measures are a relatively modest and ineffective protection against the evils of inflation. But to rely upon harsh and restrictive credit controls not only has the disadvantage of directing attention away from the things that really need to be done to cope with inflation, but also involves the very real risk of hindering business enterprise in the fulfillment of its all-important goal—the expansion of production.

The moral for credit policy is fairly obvious. Policy must be formulated on the basis of a realistic appraisal of the economics and politics of inflation, must reflect an understanding of the important part bank loans play in facilitating production, and must recognize the disadvantages of extreme or rigid action. The answer to our problem does not lie in trying mechanically to freeze an economic statistic, whether it be bank loans, bank deposits or the money supply. Rather, the objective should be to foster and maintain a lending policy among the commercial banks, and among other lenders, that will insure adequate credit to meet the needs of American business and at the same time reduce to a minimum the credit available to promote inflationary or speculative excesses. The present analysis raises grave doubts as to the necessity or desirability of new, elaborate or highly restrictive strait-jackets on bank lending operations.

In this situation the commercial bankers have many high responsibilities. One of the most important is to promote an understanding of the nature of our inflation problem and the necessity of tough and realistic fiscal, wage and tax policies in order to master it. Without these, no anti-inflation program can succeed.

Bankers also have a responsibility to cooperate to the fullest in the voluntary cooperative efforts to foster more careful lending. This will not be easy to put into practice; it may require bankers to do new things, to ask new questions, to use new standards in passing on loan applications. It may mean that bankers may have to police their loans and perhaps even run the risk of offending established customers and good credit risks if the funds are not required for essential purposes.

Finally, bankers must run their banks in the firm convictions that responsibility, self-discipline and broad-gauged thinking were never more necessary, for the good of the nation and for the good of banking. For assuredly, if commercial banking is to continue to enjoy the flexibility it needs to make its maximum contribution to our great economic effort, many people must be convinced of the sincerity of purpose and earnestness of intent of the banking profession in the difficult years that lie ahead.

[1] For details of the special reserve plan and a discussion of the reasons for the proposal and a treatment of its operation see the "Federal Reserve Bulletin," January, 1948, pp. 14-23.

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Consumers' Expenditures And Inflation

goods and houses based upon easy credit. They limit market pressure on the prices of appliances, furniture, automobiles, building materials, and many other commodities. Along with their restraining effect upon price increases, they aid in diverting necessary materials and manpower into defense production.

The Federal Reserve System has taken other steps recently to curtail inflationary forces. As you know, it has increased the rediscount rate, increased reserve requirements, stiffened margin requirements on the purchase of securities and through open market operations has allowed rates to rise slightly. Chairman McCabe of the Board of Governors of the Federal Reserve System has also requested the cooperation of all member banks in screening carefully requests for credit and in holding down increases in business loans.

All these devices for the control of credit have the same general purpose with regard to price inflation. They seek to minimize the creation of new purchasing power through the banking system — purchasing power which would enter the market place and bid for scarce materials and services. In an economy such as ours which has been built on the use of credit, it is just as important to prevent excessive credit expansion at a time such as this as it is to siphon off surplus consumer income through increased taxation.

The fifth general approach to the control of price inflation is the use of certain direct controls upon the economy. These controls minimize or replace market forces in determining prices, allocating materials, and distributing finished goods. Since they set aside the established rules of the market and impose governmental authority upon the decisions and actions of free men, direct controls are extremely difficult to administer.

Price controls, wage controls, priorities and allocations, and similar direct limitations should not be relied upon too heavily as a means of controlling inflation. Their principal value is in guaranteeing that necessary materials and services are available as needed for our common defense effort.

Our experience during World War II demonstrated conclusively, I believe, that we cannot rely upon direct controls as the primary means of combating inflation. We know now, even more than we knew then, that our taxes were not high enough. The price and wage controls of the wartime period gave us an improper sense of security. They held down the cost of conducting the war, but they did not prevent inflation. They simply postponed the impact of inflation until controls were removed in 1946.

My final point refers to savings. If any deficits do occur during the defense period, they should be met by borrowing from individuals and institutions other than commercial banks. It is imperative that the rate of savings be maintained if still heavier taxes and controls are to be avoided. We need increased sales of Series E, F, and G bonds, and also increased acceptance of government securities by savings banks, savings and loan associations, insurance companies, and other such lenders. To the extent that individuals and savings institutions go along with the program, and to the extent that we pay-as-we-go, we can avoid the use of inflationary commercial-bank credit in the financing of government expenditures. The mere process of buying government securities at this time is one of the strongest actions to protect the purchasing power of savings. The savings banks can do their part by channeling a large portion of consumer savings into government securities.

Dangers of Abnormal Volume of Savings

At the same time, an abnormal volume of savings may add up to a volume of liquid assets so large as to produce another situation similar to that at the end of World War II. That large volume of liquid assets provides a constant threat to the price level, should confidence in the future purchasing power of the dollar diminish greatly. That brings us back to pay-as-you-go, together with a normal volume of saving, as the best means of paying for defense or war; the pay-as-you-go method leaves no hangover.

The long-run objectives of savings banks and other savings institutions are similar to those of the Federal Reserve System and, indeed, are similar to those of the whole economy. The support of savings banks for the general program which I have discussed is of great importance. We must work together to protect the value of the dollar. We must aid in expanding national output. We must restrain over-spending through an adequate level of taxation, through sound financing methods of the Federal Government, and through restraint upon the excessive granting of credit. We must encourage savings in an appropriate volume and in appropriate forms. This program involves some sacrifices on the part of all of us, but I think you will agree with me that those sacrifices are necessary.

Uhlmann & Latshaw Open N. Y. Branch

Uhlmann & Latshaw, Kansas City, Mo., members of the New York Stock Exchange, have opened a branch office at 14 Wall Street, New York City, under the management of William J. McGovern.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

I've been tied to a bed for the past week or so with something the doctor described as a virus infection. A couple of years ago the same thing was simply called the flu. This isn't a bid for sympathy it is merely to tell you that being confined to a bedroom for a time gave me plenty of chances to go over the market and see what was making it click.

* * *

I realized a number of things, chiefly that, despite the rosy forecasts, the market wasn't a one-way street. If there was a new era ahead its path wasn't so clearly defined as some people seemed to feel. I saw evidences of selling that had previously escaped me, though none of this pointed to imminent declines.

* * *

There's no arguing with the fact that the buyers today are better heeled than those of a few years ago. Stock is being taken out of the market by individuals and the open-end trusts. The big lure for the first class is the escape from dollars; the second is aggressive selling by well organized sales organizations. A war contract today sends scores of eager buyers into the market to buy the stock of the war beneficiary. This in turn takes still more stock out of the market and brings higher prices.

* * *

In recent months this eagerness to get aboard has been fed by stock splits. The big reason for splits, according to official statements, was a desire to "get wider public participation." I've always translated that into, "Let's get some buyers in so we can get out." Maybe that's too cynical, but I'm interested in the answers not the reasons.

It's no secret that we are arming, preparing and stockpiling today for a possible war with Russia. I've wondered what would happen if the war didn't come; or was postponed indefinitely. What would happen to our already bent economy? You see I can ask questions even if I don't have the answers. But I have at least one answer and that is, don't go hog-wild in a market that may fall away from under you.

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If you're anxious to buy stocks, then take a look at some of the lethargic issues which have done nothing up to now. Refusal to participate in past advances isn't a guarantee of future advance. But if a break does come the stocks that haven't moved up won't have to move back. That's one method. Another one is to stifle the urge to get in at this stage. Hold on to your cash a while longer.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

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Common Stocks as Inflation Hedge for Pension Funds

tribution of our commitments among the various industries is very desirable. Even the securities of the less favored companies have their day of glory, as evidenced by the resurrection of the railroad bond and stock market since June. As many of you already know, a program restricted to senior securities precludes investment in a number of companies and industries which have been successfully developed without being forced to raise capital by borrowing money or selling preferred stock. One example which has been especially kind to investors in recent years is the insurance field. Another is the banks. Even in the industrial classification, the stronger companies have tended to eliminate debt and preferred stocks or to refund them privately. In some groups, such as the automobile, only one of the major companies has any senior securities outstanding.

Many of us worship the word "growth" when considering investments. In watching the results of our handiwork over the years, all companies have their problems but those with a strong underlying growth trend seem to have overcome the obstacles somewhat more successfully. In other words, long-term investment in companies with this characteristic has been profitable. Taking the broader point of view for the moment, an account should participate in the profits from new products and other technological improvements emanating from the research laboratories of the country. While many companies, which can be classified in this category, have to offer senior securities to provide greater manufacturing facilities, these do not really allow the security holder to benefit from the growth. Some participation in the profits can be secured by purchasing convertible bonds or preferred stocks but frequently this privilege covers up some weakness in the security itself. In addition, if the investment is successful, the premium at which the security sells increases its volatility almost to that of the common stock. At some point, and frequently at the beginning, the greater yield and appreciation possibilities available on the common stock make that the more attractive commitment.

My training in this field of endeavor has included lessons on the fact that investing funds is not an exact science. If you make the correct decisions in the majority of cases, you are considered successful. All of us make mistakes, even those who confine their investments to bonds, and the presence of a nice profit in a stock is very comforting. While bonds can be purchased at a discount with the hope of a profit, this procedure at least currently means stepping down the ladder of quality. While we know this has been done successfully, we have preferred to concentrate our risk in common stocks where there is no "top" price as in the case of bonds. Some of you may have heard the difference between an optimist and a pessimist. The optimist looks at a pail of water and while the pessimist comments that the pail is half empty. I guess that observations about common stocks frequently are determined by the same basic state of mind.

One of the greatest dangers facing the supervisor of a large investment account today is the steady deterioration in the value of the dollar. This country appears to be committed to a policy of spending more than it receives in good times as well as bad, in says that the pail is half full, peace as well as war. While I do not submit the proposition that common stocks are the perfect solution, I am sure that no one here will suggest bonds as a substitute for this purpose. With this specter on the horizon, some common stocks are justified solely as a hedge against inflation.

I have left to the last the most attractive reason for common stocks at the present time, namely, the greater yield and the attendant lower contributions to the pension plan by the employer. No investment program should be based solely on the amount of income deemed necessary or desirable by the interested parties. The difference between a 2½% and a 3¼% to 3½% return on a substantial amount of money over a long period of time, such as 30 years, is large and in the vernacular, "it ain't hay." In view of the material saving, the spread in the yields between bonds and high grade common stocks does raise some interesting questions.

With the increasing governmental controls, the accelerating pace of our rearmament, and the need for substantial funds by the Treasury, any radical removal of controls over the bond market accompanied by higher yields appears rather remote. Unless the insurance companies or other large holders of corporate bonds lighten their position, there appears little hope for higher earnings from the bond section of the account.

What are the dangers of the wide yield spread narrowing because of lower dividends, since the raising of the other side of the equation appears remote? The restrictions on production of normal lines, the lower profit margins on government business, and the heavier tax burden seem to point to lower earnings for a great many corporations. The use of averages is frequently dangerous but the dividends as a percentage of earnings on stocks in the Dow-Jones Industrial and Moody's averages indicate that there is now a greater margin of safety than existed in the same groups of companies before World War II. At the present time, the yield on a list of high grade common stocks is somewhat over twice that available on high grade bonds. In other words, the yields on common stocks may be decreased, but over a period of years it seems to me that income should mode than equal that on prime bonds, which are the principal alternative investment opportunity.

To summarize, the principal reasons for utilizing common stocks in pension funds are to provide better diversification among industries, to participate in "growth" companies, to offset, at least at times, the mistakes made in part of the investments, to move in the direction of offsetting the deterioration of the dollar, and finally, to increase the yield of the fund and thereby reduce the cost of pensions to the employer. There are always two sides to a question and this important problem is no exception.

One of the real dangers of adopting a program for common stocks is that at a bad time in the market, the directors or the pension committee of the company will exert great pressure on the trustee, or the trustee himself may decide to abandon the whole idea as being silly, take the losses, and put the money in bonds or take out an insurance policy. In the past, suggestions for such changes in investment policy often seem to have been advanced at the worst possible time to sell. Any pension trustee going into common stocks should arm himself now against such pitfalls and state a definite policy of using low levels of the market to average down his holdings of common stocks and to build up the proportion of these items.

One of the greatest doubts concerning this program is the position of the trustee when the stocks are selling at a substantial discount from the book value, which I should expect would be accompanied by a business depression. The officers of the company are worried about keeping it out of the red or cutting losses and they see their pension fund shrinking in value. In the first place, it should be remembered that pension funds can be appraised at book or market when being valued for actuarial purposes. In the case of the pension plans with which we are connected, we have found that the actuaries use book value so as to level out the company contributions. This allows the employer to avoid paying less when stocks are high and profits are usually large and then paying more when the reverse is true. In other words, if in the case above, the company uses the book value method, it is not liable for any larger contribution than in any other year or than if the trust was composed solely of bonds, or even if an insurance company contract had been used to meet the pension liability. The annual contribution can be postponed and the plan still remain qualified provided the limit set by the Bureau of Internal Revenue is not exceeded. Therefore, the use of common stocks does not prove more costly than any other plan.

You may accept this conclusion but then question the justification of figuring the pension liability of the company, using common stocks at book value as an offset. It must be admitted that from an ultraconservative point of view, the company should add enough to the pension trust to make it whole. However, the company does have the right to postpone its contribution so that the fund would become actuarially unsound but still have the approval of the tax authorities. Furthermore, we have seen a special approach used in valuing the assets of companies with long term liabilities such as life insurance companies. In the 1930's, bonds amply secured and not in default were carried at amortized value even though their market was considerably less. While this special value was confined to prime bonds, with the insurance companies heading in the direction of heavier stock commitments, some liberalization of this procedure may be made when the next pinch on surplus comes. Like so many arguments in this world, the real solution probably lies in the matter of degree. I might add here that I am one of those who believe that if conditions return to the 1932 level again, a new form of society will emerge and the value of the relics of the past, such as bonds and stocks, will be open to question.

Another dogma in the use of common stocks is the possibility of demands for cash being so great that stocks have to be sold, again probably at the wrong time. At least during the early years of a fund, the contributions by the employer exceed the outgo so that if the cash is received the trustee can merely use the cash flow to meet the benefit payments. If the contribution of the company fails to appear, a balanced investment program should include some short-term bonds which could be liquidated.

Among the questions which have been passed on to me is the desirability of using the stock of the company in its own pension fund. The instruments in our trust department include some which permit such a purchase and some which forbid it. The Federal Tax Regulations do not prevent the trustees of a qualified trust from investing in any securities that are permitted by the trust agreement. However, these regulations require that when trust funds are invested in the securities of the employer, "full disclosure must be made of the reasons for such an arrangement and of the conditions under which such investments are made." Therefore, it can be done if it is considered desirable. If the stock is readily marketable and is considered by the trustee to be attractive in the market, the purchase of a nominal unit is justified. If the company is anxious to have a large part of the pension fund invested in its own stock, we are not sure that funding the plan with a trustee is the soundest procedure. Provided the company is large and strong enough so that the employees will not lose confidence in the pension plan in the absence of an independent trustee, the management might consider setting aside funds on the balance sheet as a special reserve for pensions. The cash paid into the fund would be kept in the company and invested in additional working capital and/or plant. Normally the rate of return on such an investment exceeds by a substantial margin the yield on the common stock. The disadvantages of such a program are that only the actual funds disbursed to the pensioners are al

lowable as tax deductions and with no reserve of marketable investments available, the company must provide funds for the pension payments in bad times as well as good times. The balance of these factors must be determined by the management. Generally speaking, the odds are probably against the use of the company's own securities except as just another item when available in the market.

Another question that has been propounded is the advantages to the employer from holding common stocks. If, as we hope, the yield of the account is above that invested solely in bonds, the cost of the pension plan will be less. Another point of more long range significance is that if the account grows in value over the years, again as we hope, an excess of market value over book value will be available to provide additional benefits for the employees and help maintain the purchasing power of the pensions in the face of a spiraling cost of living.

The managers of pension trusts have a tremendous social "hot potato" on their hands. The Steel Industry Board appointed by the President in 1949 found that "Social insurance and pensions should be considered a part of normal business costs to take care of temporary and permanent depreciation in the human 'machine,' in much the same way as provision is made for depreciation and insurance of plant and machinery. This obligation should be among the first charges on revenues." Later on, the report stated that "social insurance and pensions cannot vary, like wage rates, from year to year. They involve long-range considerations which are not to be strictly limited, as are wage rates, by 'present conditions' or even immediately foreseeable conditions. Once installed, they become more or less permanent, particularly pensions." Experts tell us that around $14,000 is necessary to fund a pension of $100 a month for a worker retiring at age 65. If the pension liabilities of a major part of all employees were funded, the volume of pension trust would be colossal. Carrying this theorizing one step further and assuming that only bonds could be purchased, it would create the need for a tremendous addition in the debt of this country and its companies. I hate to see such a trend and would worry about our sources of equity capital in the future. To insure that new bond issues are sound, additional equity must be invested in the enterprise. If pension funds use some common stocks, the well established companies have a large and continuing source of money for years to come. If we turn to idealistic questions, shouldn't this be included as another reason why common stocks might be used in this type of account?

As I said at this conference a year ago, the policy of my bank has been to invest about 30% of a pension trust over which we have full investment discretion in common stocks. This has been continued since that time and we do not overlook the common stock market whenever cash is added to the pension fund. We believe that under present uncertain conditions, an investment program which includes common stocks should show, over a period of years, a better combined income and principal performance than can be obtained through an investment program restricted to fixed-income obligations.

We have lived with common stocks for a great many years and sometimes they have been good to us and sometimes they have done us wrong. I hope that these remarks will give you some of the reasons for our solution of the quotation of Justice Putnam—"Do what you will, the capital is at risk."

Continued from page 4

The State of Trade and Industry

shifting production from peace to war goods. Some of the major contracts that already have been placed will require as much as 18 months for tooling up before assembly line production can begin. This explains, this trade authority states, why the machine tool industry is staggering under an ever increasing backlog of orders, while many small manufacturers face production curtailment. Many of them cannot weather such a long storm.

Increasing the limits of defense (DO) orders which steel mills must accept is also hitting the small manufacturer—especially if his steel has been coming from mills now forced to roll plate on sheet or strip mills. For example, the increase to 20% on carbon plates and 17% on hot-rolled sheets, means that the hot-rolled sheet producer using his mill for rolling plates is diverting at least 37% of his sheet capacity to DO orders. This does not include tonnage he must provide for essential civilian programs, warehouses, and non-integrated mills. During the second quarter some mills will be channeling more than 50% of their hot-rolled sheet into essential programs.

In addition to existing allocation programs the following are slated to start in May: Merchant vessels, barges, locomotives for the U. S. and Canada, oil-country goods and well-head equipment for the petroleum industry, maritime ship program, ocean going ship repair, drums and pails. Still under consideration are heavy power equipment, power plants and highways. It is estimated that these programs will take about a million tons of steel during May.

The National Production Authority seems determined to install its new controlled materials plan on steel, copper and aluminum on July 1—ready or not. Unless a lot of detail work is done between now and then they will not be ready, this trade paper asserts. CMP in name only, or prematurely installed, could do more harm than good.

Just putting the CMP label on a plan will neither guarantee priorities nor guide production. To be effective, CMP will have to be preceded by long and careful planning, detailed screening of material requests from all types of consumers, and a selective build-up of administrative people. It has none of the magic of Aladdin's lamp; it requires careful organization and hard work by many people, concludes the "Iron Age."

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 93% of the steelmaking capacity for the entire industry will be 99.5% of capacity for the week beginning Feb. 19, 1951, based on the industry's increased capacity of Jan. 1, compared to a rate of 98.5% a week ago, or a rise of one point.

This week's operating rate is equivalent to 1,989,000 tons of steel ingots and castings for the entire industry, compared to 1,969,000 a week ago. A month ago the rate was 100.9% and production yielded 2,017,000 tons; a year ago it stood at 88.8% of the old capacity and amounted to 1,692,000 tons.

Electric Output Continues Lower Trend From Record Peak

The amount of electrical energy distributed by the electric light and power industry for the week ended Feb. 17, 1951, was estimated 6,905,223,000 kwh., according to the Edison Electric Institute.

The current total was 52,061,000 kwh. lower than that of the previous week, 973,872,000 kwh., or 16.4% above the total output for the week ended Feb. 18, 1950, and 1,254,944,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Show Further Curtailment Due to Rail Strike

Loadings of revenue freight for the week ended Feb. 10, 1951, during which railroad operations were curtailed by labor troubles, totaled 573,163 cars, according to the Association of American Railroads, representing a decrease of 77,961 cars, or 12% below the preceding week.

The week's total represented an increase of 4,347 cars, or 0.8% above the corresponding week in 1950 when loadings were reduced by a general strike at bituminous coal mines, but a decrease of 126,279 cars, or 18.1% below the comparable period of 1949.

Auto Output Rebounds Sharply Following End of Rail Strike

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 174,467 units, compared with the previous week's total of 115,967 (revised) units and 123,712 units a year ago.

Total output for the current week was made up of 134,301 cars and 30,546 trucks built in the United States and a total of 6,910 cars and 2,710 trucks built in Canada.

For the United States alone, total output was 164,847 units, the highest point since last November, against last week's revised total of 106,315 units, and in the like week of the last year 166,134. Canadian output in the week totaled 9,620 units compared with 10,298 units a week ago and 7,604 units a year ago.

Business Failures Show Substantial Drop

Commercial and industrial failures declined to 165 in the week ended Feb. 15 from 191 in the preceding week, Dun & Bradstreet, Inc., reports. This decrease brought casualties considerably below the 1950 and 1949 levels when 218 and 180 occurred respectively. In comparison with prewar 1939, failures were down 44% from the total of 293 recorded in the similar week of that year.

Wholesale Food Price Index 1.5% Within All-Time High

The Dun & Bradstreet wholesale food price index extended its four-month upward movement to stand at $7.25 on Feb. 13, a rise of 4 cents over the previous level of $7.21. Not since the week of Oct. 10, last, has the index shown a drop. The current figure is 23.7% higher than the year-ago index of $5.86, and 21.6% above the pre-Korea level of $5.96. It is now only 1.5% below the all-time high of $7.36 recorded on July 13, 1948.

The index represents the sum total of the price per pound of 31 foods in general use, and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Registers New Record High

Although a number of trading markets remained inactive pending clarification of the price freeze order, strength in farm products and foods held the Dun & Bradstreet daily wholesale commodity price index at peak levels during the past week. The index closed at a new all-time high of 329.38 on Feb. 13, comparing with 326.37 a week ago, and with 249.20 on the corresponding date last year.

On Monday, Feb. 12, the Office of Price Stabilization removed price ceilings from all farm products selling below parity, such as poultry, eggs, milk, sugar and certain grains. Specific price ceilings were set for soybeans, green coffee and cocoa beans, while a rollback of prices was announced for crude cottonseed oil and other vegetable oils.

Uncertainty as to possible ceiling price action on various farm commodities resulted in a slowing down of sales of grain futures last week. The upward trend of grain prices continued, however, although day-to-day changes were held to comparatively narrow limits.

Wheat prices reached the highest level in three years, aided by good export demand, curtailed receipts from the country and continued lack of moisture in the dry sections of the Winter wheat belt.

Larger receipts of all grains are expected as a result of the settlement of the switchmen's strike. Cash corn was very quiet with receipts the smallest for many months. The yellow cereal also sold at the best prices since early 1948 with current levels said to be close to the anticipated ceilings. The market received considerable support from the removal of hedges against export sales with Mexico and a number of European countries reported buyers of cash corn last week. Oats showed some independent strength but moved largely in sympathy with wheat and corn. The volume of sales of grain futures on the Chicago Board of Trade last week aggregated 198,415,000 bushels, or a daily average of about 33,000,000 bushels, the latter comparing with 45,000,000 bushels the previous week, and with 28,000,000 bushels in the corresponding week last year.

Domestic flour bookings remained on a limited basis. Grinding operations were resumed at many mills with the easing of the rail tie-up. Cocoa prices again moved slightly lower in light trading, reflecting a lack of speculative demand and lagging manufacturer interest. Both cocoa and coffee closed at levels slightly below the ceilings set by the OPS.

Trading in lard was slower than a week ago with prices holding firm.

Livestock markets were featured by further advances in lambs to new historical highs and new seasonal peaks for hogs.

Cattle prices were mostly steady to slightly higher.

Activity in domestic cotton markets remained at a standstill as traders awaited a workable solution of the price regulation order as applied to the raw staple. Trading in the Boston wool market was likewise suspended during the week.

Trade Volume Lifted By Good Weather, Anticipated Taxes and Lincoln's Birthday Holiday

The nation's consumers spent slightly more money in the period ended on Wednesday of last week than during the prior week. Contributing factors were the general letup of unfavorable weather, the observance of Lincoln's Birthday throughout much of the country, and the anticipation of federal excise taxes. Overall retail dollar volume was noticeably above the level for the comparable week last year, Dun & Bradstreet, Inc., reports in its current summary of trade.

Shoppers for apparel increased their purchases somewhat last week; dollar sales were slightly above those for the similar 1950 period. Widespread promotions of Spring fashions evoked a generally favorable response. Much interest was stimulated for Spring suits, rainwear, sport clothing and accessories. There was no appreciable change in the demand for dresses. Winter coats for men and boys were increasingly requested.

While there was a decline in the sale of such food items as meat, confectionery and delicacies, the start of the Lenten season brought about a compensating demand for sea-food, dairy products, and eggs.

Total dollar volume was moderately above a year ago, reflecting upward price adjustments in certain lines.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 11 to 15% above a year ago. Regional estimates varied from the levels of a year ago by the following percentages:

New England and Pacific Coast +7 to +11; East +9 to +13; South, Midwest, and Southwest +12 to +16 and Northwest +11 to +15.

Wholesale ordering in the week was almost unchanged from the level of the week before. The total dollar volume of orders was substantially above the level for the similar week in 1950. While the number of buyers attending various wholesale centers increased very slightly last week, it was somewhat below the level of a year ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Feb. 10, 1951, advanced 15% from the like period of last year. This compared with an increase of 3% in the previous week and 19% for the four weeks ended Feb. 10, 1951. For the year to date department store sales registered an advance of 24%.

Promotional sales and good weather the early part of last week aided retail sales volume in New York. As a consequence, a gain of 20% was recorded the past week over the similar period of 1950.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Feb. 10, 1951, advanced 19% from the like period of last year. In the preceding week an increase of 5% (revised) was registered above the similar week of 1950. For the four weeks ended Feb. 10, 1951, an increase of 17% was recorded over that of a year ago, and for the year to date, volume advanced 22% from the like period of last year.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Feb. 25	99.5	98.5	100.9	88.8
Equivalent to—					
Steel ingots and castings (net tons)	Feb. 25	1,989,000	1,969,000	2,017,000	1,692,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Feb. 10	5,861,250	5,938,500	5,761,510	4,951,250
Crude runs to stills — daily average (bbls.)	Feb. 10	‡6,338,000	6,395,000	6,370,000	5,362,000
Gasoline output (bbls.)	Feb. 10	20,069,000	19,981,000	20,815,000	17,887,000
Kerosene output (bbls.)	Feb. 10	2,559,000	2,843,000	2,652,000	2,327,000
Gas, oil, and distillate fuel oil output (bbls.)	Feb. 10	9,420,000	9,785,000	10,062,000	6,741,000
Residual fuel oil output (bbls.)	Feb. 10	9,714,000	9,561,000	9,786,000	8,693,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Feb. 10	133,134,000	129,700,000	121,209,000	129,362,000
Kerosene (bbls.) at	Feb. 10	14,693,000	15,634,000	18,027,000	17,120,000
Gas, oil, and distillate fuel oil (bbls.) at	Feb. 10	53,065,000	56,776,000	64,557,000	60,602,000
Residual fuel oil (bbls.) at	Feb. 10	40,206,00	*40,371,000	41,675,000	52,865,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Feb. 10	573,163	651,124	783,025	568,816
Revenue freight received from connections (number of cars)	Feb. 10	533,534	593,632	692,543	539,748
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Feb. 15	$256,465,000	$555,701,000	$391,606,000	$120,047,000
Private construction	Feb. 15	162,322,000	473,513,000	242,146,000	85,084,000
Public construction	Feb. 15	94,143,000	82,188,000	149,460,000	34,963,000
State and municipal	Feb. 15	60,772,000	73,431,000	50,495,000	21,648,000
Federal	Feb. 15	33,371,000	8,757,000	98,965,000	13,315,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Feb. 10	8,460,000	*9,415,000	11,820,000	2,592,000
Pennsylvania anthracite (tons)	Feb. 10	866,000	859,000	952,000	701,000
Beehive coke (tons)	Feb. 10	129,500	*156,100	158,600	3,900
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Feb. 10	273	*234	305	238
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Feb. 17	6,905,223	6,957,284	6,908,818	5,931,351
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Feb. 15	165	191	167	218
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Feb. 13	4.131c	4.131c	4.131c	3.837c
Pig iron (per gross ton)	Feb. 13	$52.69	$52.69	$52.69	$46.38
Scrap steel (per gross ton)	Feb. 13	$43.00	$47.75	$46.75	$27.25
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Feb. 14	24.200c	24.200c	24.200c	18.200c
Export refinery at	Feb. 14	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Feb. 14	183.000c	182.500c	175.000c	74.500c
Lead (New York) at	Feb. 14	17.000c	17.000c	17.000c	12.000c
Lead (St. Louis) at	Feb. 14	16.800c	16.800c	16.800c	11.800c
Zinc (East St. Louis) at	Feb. 14	17.500c	17.500c	17.500c	9.750c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Feb. 20	101.26	101.33	101.55	103.54
Average corporate	Feb. 20	116.02	116.02	116.02	116.41
Aaa	Feb. 20	119.82	120.02	119.82	121.46
Aa	Feb. 20	118.80	118.80	119.00	120.02
A	Feb. 20	115.43	115.43	115.43	116.02
Baa	Feb. 20	110.15	110.34	109.97	108.70
Railroad Group	Feb. 20	112.93	112.93	112.75	111.62
Public Utilities Group	Feb. 20	115.63	115.82	116.02	117.40
Industrials Group	Feb. 20	119.20	119.20	119.00	120.43
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Feb. 20	2.40	2.40	2.38	2.24
Average corporate	Feb. 20	2.85	2.85	2.85	2.83
Aaa	Feb. 20	2.66	2.65	2.66	2.58
Aa	Feb. 20	2.71	2.71	2.70	2.65
A	Feb. 20	2.88	2.88	2.88	2.85
Baa	Feb. 20	3.16	3.15	3.17	3.24
Railroad Group	Feb. 20	3.01	3.01	3.02	3.08
Public Utilities Group	Feb. 20	2.87	2.86	2.85	2.78
Industrials Group	Feb. 20	2.69	2.69	2.69	2.63
MOODY'S COMMODITY INDEX	Feb. 20	532.5	532.9	526.6	356.5
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Feb. 10	226,546	345,524	262,530	201,511
Production (tons)	Feb. 10	237,247	240,200	241,472	209,827
Percentage of activity	Feb. 10	104	103	106	93
Unfilled orders (tons) at	Feb. 10	748,012	761,828	746,287	365,243
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Feb. 16	152.9	152.4	151.5	120.9
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Feb. 3	48,568	44,711	41,954	33,790
Number of shares	Feb. 3	1,467,109	1,316,015	1,271,860	1,014,752
Dollar value	Feb. 3	$66,494,809	$60,156,890	$52,861,134	$39,840,155
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Feb. 3	43,360	39,461	36,895	35,523
Customers' short sales	Feb. 3	330	264	415	317
Customers' other sales	Feb. 3	43,030	39,197	36,480	35,206
Number of shares—Customers' total sales	Feb. 3	1,258,027	1,123,561	1,075,006	998,842
Customers' short sales	Feb. 3	12,610	10,531	15,981	11,036
Customers' other sales	Feb. 3	1,245,417	1,113,030	1,059,025	987,806
Dollar value	Feb. 3	$51,166,009	$46,131,138	$41,367,877	$35,505,730
Round-lot sales by dealers—					
Number of shares—Total sales	Feb. 3	337,440	324,140	298,860	307,570
Short sales	Feb. 3	------	------	------	------
Other sales	Feb. 3	337,440	324,140	298,860	307,570
Round-lot purchases by dealers—					
Number of shares	Feb. 3	548,210	522,200	469,420	340,560
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Feb. 13	183.3	*182.3	178.7	152.8
Farm products	Feb. 13	203.4	200.3	191.5	159.4
Grains	Feb. 13	195.5	190.7	183.9	161.1
Livestock	Feb. 13	271.1	263.9	249.5	202.7
Foods	Feb. 13	190.1	*188.8	182.1	156.3
Meats	Feb. 13	277.5	*274.4	261.6	215.4
All commodities other than farm and foods	Feb. 13	170.7	*170.2	168.9	145.9
Textile products	Feb. 13	181.1	*181.1	179.7	138.3
Fuel and lighting materials	Feb. 13	137.5	136.2	136.1	131.4
Metals and metal products	Feb. 13	188.7	188.9	188.3	168.6
Building materials	Feb. 13	226.7	226.5	223.9	192.6
Chemicals and allied products	Feb. 13	146.8	*145.5	144.9	115.2

*Revised figure. ‡Includes 509,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES):			
Production of primary aluminum in the U. S. (in short tons)Month of December	65,897	62,276	41,161
Stock of aluminum (short tons) end of Dec.	16,636	14,192	29,101
AMERICAN GAS ASSOCIATION — For Month of December			
Total gas (M therms)	4,654,058	3,489,502	3,740,600
Natural gas sales (M therms)	4,316,493	3,236,074	3,407,443
Manufactured gas sales (M therms)	202,375	162,557	220,184
Mixed gas sales (M therms)	135,190	90,871	112,973
AMERICAN PETROLEUM INSTITUTE—Month of November:			
Total domestic production (bbls. of 42 gallons each)	192,981,000	*199,372,000	170,550,000
Domestic crude oil output (bbls.)	176,725,000	182,896,000	156,285,000
Natural gasoline output (bbls.)	16,251,000	*16,469,000	14,235,000
Benzel output (bbls.)	5,000	7,000	30,000
Crude oil imports (bbls.)	13,992,000	15,809,000	13,036,000
Refined products imports (bbls.)	12,737,000	11,965,000	8,051,000
Indicated consumption—domestic and export (bbls.)	214,446,000	*214,092,000	196,086,000
Increase—all stocks (bbls.)	5,264,000	*13,054,000	†4,449,000
‡AMERICAN TRUCKING ASSOCIATION — Month of December:			
Number of motor carriers reporting	257	*257	*257
Volume of freight transported (tons)	3,410,019	*3,399,326	2,680,092
AMERICAN ZINC INSTITUTE, INC.—Month of January:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	80,912	*79,995	69,948
Shipments (tons of 2,000 lbs.)	70,848	*72,342	69,020
Stocks at end of period (tons)	10,212	*8,884	82,037
Unfilled orders at end of period (tons)	72,770	74,795	52,941
COAL OUTPUT (BUREAU OF MINES)—Month of January:			
Bituminous coal and lignite (net tons)	50,950,000	46,526,000	30,082,000
Pennsylvania anthracite (net tons)	4,229,000	3,360,000	2,914,000
Beehive coke (net tons)	690,900	*625,900	124,300
COKE (BUREAU OF MINES)—Month of Dec.:			
Production (net tons)	6,606,464	*6,243,970	5,637,800
Oven coke (net tons)	5,980,557	5,666,213	5,553,300
Beehive coke (net tons)	625,907	*577,757	84,500
Oven coke stocks at end of month (net tons)	1,106,208	1,102,453	1,716,600
FAIRCHILD PUBLICATION RETAIL PRICE INDEX — 1935-39 = 100 (COPYRIGHTED AS OF FEB. 1):			
Composite index	146.2	144.9	137.0
Piece goods	137.7	136.1	127.7
Men's apparel	144.3	143.1	138.6
Women's apparel	135.8	135.0	130.2
Infant and children's wear	135.4	134.6	129.4
*Home furnishings	159.8	158.1	145.6
Piece goods—			
Rayon and silks	115.2	114.8	114.0
Woolens	151.0	149.2	138.9
Cotton wash goods	160.9	158.2	145.2
Domestics—			
Sheets	193.4	189.2	167.1
Blankets and comfortables	164.3	159.4	143.0
Women's apparel—			
Hosiery	107.0	106.4	102.9
Aprons and housedresses	144.1	143.6	141.8
Corsets and brassieres	141.2	140.2	130.8
Furs	142.8	141.8	134.6
Underwear	136.4	135.9	133.2
Shoes	147.8	146.5	140.5
Men's apparel—			
Hosiery	145.6	144.6	139.5
Underwear	163.6	161.1	152.3
Shirts and neckwear	133.3	132.8	129.5
Hats and caps	127.8	127.4	127.4
Clothing including overalls	134.0	132.9	130.9
Shoes	179.5	177.9	168.0
Infants' and children's wear—			
Socks	132.4	131.8	130.4
Underwear	123.0	122.5	119.1
Shoes	155.7	154.1	143.9
Furniture	155.8	154.2	146.4
Floor coverings	184.2	182.6	156.4
Radios	123.1	122.8	117.7
Luggage	135.1	133.3	128.3
Electrical household appliances	147.9	147.3	138.8
China	135.8	135.1	133.1
HOUSEHOLD VACUUM CLEANERS — STANDARD SIZE (VACUUM CLEANER MANUFACTURERS ASSN.)—Month of January:			
Factory sales (number of units)	282,305	288,756	249,150
METAL OUTPUT (BUREAU OF MINES) — Month of December:			
Mine production of recoverable metals in the United States:			
Copper (in short tons)	81,712	81,957	62,565
Gold (in fine ounces)	199,818	208,065	167,850
Lead (in short tons)	36,175	35,377	33,868
Silver (in fine ounces)	3,723,054	3,626,503	2,761,679
Zinc (in short tons)	55,127	54,604	41,687
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of Jan.	£20,089,000	£13,524,000	£10,995,000
NEW YORK STOCK EXCHANGE—As of Jan. 31 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$1,411,125	*$1,357,729	$901,211
Credit extended to customers	114,104	120,670	46,484
Cash on hand and in banks in U. S.	404,297	399,013	309,059
Total of customers' free credit balances	947,966	*890,288	669,388
Market value of listed shares	99,339,824	93,807,269	77,940,210
Market value of listed bonds	116,164,521	115,951,939	128,020,569
Member borrowings on U. S. Govt. issues	178,396	210,921	94,413
Member borrowings on other collateral	665,423	698,226	543,041
PORTLAND CEMENT (BUREAU OF MINES)—Month of December:			
Production (barrels)	19,116,000	20,226,000	16,967,000
Shipment from mills (barrels)	12,477,000	19,791,000	11,628,000
Stocks (at end of month—barrels)	13,021,000	6,380,000	14,706,000
Capacity used	87%	95%	78%
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of January:			
Net sales	------	------	$6,577,800
Net purchases	$36,780,600	$6,956,000	------
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of January 31	$256,142,642	$256,731,304	$256,892,405
General fund balance	4,453,643	4,232,414	5,048,918
Net debt	$251,688,999	$252,498,890	$251,843,487
Computed annual rate	2.224%	2.209%	2.205%

*Revised. †Decrease—All stock (bbls.). ‡This report will hereafter be discontinued.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Alhambra Gold Mines Corp., Hollywood, Calif.
Nov. 1 filed 80,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For further development of mine and for working capital.

Alliance Tire & Rubber Co., Ltd. (Israeli)
Feb. 1 filed 28,770 shares of class A common stock (par five Israeli pounds). **Price**—$50.40 per share (to be offered as a speculation). **Underwriter**—None. **Proceeds**—To construct and equip a modern tire and rubber plant in the State of Israel **Business**—Plans manufacture of tires and other rubber products.

• **Allied Laboratories, Inc. (3/13)**
Feb. 19 filed 50,000 shares of common stock (no par). **Price**—To be related to the market price for the outstanding shares on the Midwest Stock Exchange. **Underwriter**—Goldman, Sachs & Co., New York. **Proceeds**—For expansion program and working capital. **Meeting**—Stockholders will vote March 13 on authorizing 100,000 additional shares of common stock.

• **American Dairy Products Corp., N. Y. (3/12)**
Feb. 16 filed 300,000 shares of preferred stock (par $4) and 300,000 shares of common stock (par 10 cents) to be offered in units of one share of preferred and one share of common stock. **Price**—$5 per unit. **Underwriters**—Emanuel, Deetjen & Co. and Barrett Herrick & Co., Inc., both of New York. **Proceeds**—To acquire plant, to pay indebtedness and for working capital.

American Research & Development Corp., Boston, Mass.
Feb. 1 filed 106,420 shares of common stock (par $1). **Price**—$25 per share. **Underwriters**—None, but subscriptions may be obtained by Estabrook & Co., Harriman Ripley & Co., Inc. and Clark, Dodge & Co., New York, and other members of the NASD. **Proceeds**—To make investments in certain enterprises.

American Telephone & Telegraph Co.
Jan. 18 filed not exceeding $420,000,000 12-year 3⅜% convertible debentures due March 19, 1963 (amount expected to be in excess of $410,000,000) being offered to stockholders of record Jan. 29, 1951 on basis of $100 of debentures for each seven shares of stock held; rights to expire on March 19, 1951. The debentures will be convertible into capital stock beginning June 1, 1951, at $138 per share, payable by surrender of $100 of debentures and payment of $38 in cash. **Price**—At 100% of principal amount. **Underwriter**—None. **Proceeds**—For advances to subsidiary and associated companies and for general corporate purposes. Statement effective Jan. 24.

Ampal-American Palestine Trading Corp., N. Y.
Dec. 8 filed $5,000,000 of 15-year 4% sinking fund bonds, series A, due 1966. **Price**—At 100. **Underwriter**—Directors and employees may be salesmen. **Proceeds**—To develop and expand agricultural, industrial and commercial enterprises in Israel. Statement effective Jan. 9.

Argo Oil Corp., Denver, Colo.
Dec. 18 (letter of notification) 5,750 shares of capital stock (par $5). **Price**—At the market (approximately $17.37½ per share). **Underwriter**—Carl H. Pforzheimer & Co., New York. **Proceeds**—To A. E. Johnson, President, the selling stockholder. **Office**—1100 First National Bank Building, Denver, Colo.

Armco Steel Corp. (2/26)
Jan. 30 filed a maximum of 884,000 shares of common stock (par $10) to be offered for subscription by common stockholders of record Feb. 26, 1951, on the basis of one-fifth share for each share held; rights to expire on March 14, 1951. **Price**—To be supplied by amendment. **Underwriters**—Smith, Barney & Co. and W. E. Hutton & Co. **Proceeds**—For expansion program and additional working capital.

Atlantic Oil Corp., Tulsa, Okla.
Nov. 13 (letter of notification) 48,046 shares of capital stock. **Price**—At par ($5 per share). **Underwriter**—Continental Corp., Tulsa, Okla. **Proceeds**—To purchase oil and gas properties.

B. & H. Incorporated, New Orleans, La.
Jan. 8 (letter of notification) 19,397 shares of 6% cumulative preferred stock (par $10) and 58,940 shares of common stock (par 50 cents) to be sold in units of one preferred and one common share. **Price**—$10.50 per unit and 50 cents per share for common stock. **Underwriter**—Woolfolk & Shober, Inc., New Orleans, La. **Proceeds**—For working capital. **Office**—513 Carondelet Bldg., New Orleans 12, La.

Baldwin-Lima-Hamilton Corp.
Feb. 8 filed 486,312 shares of common stock (par $13) to be issued in exchange for 303,945 shares of Austin-Western Co. common stock on basis of 1⅗ shares of Baldwin for one Austin-Western share. **Underwriter**—None.

• **Border Co. (3/7)**
Feb. 15 filed $60,000,000 of 30-year 2¾% debentures due 1981. **Price**—To be supplied by amendment. **Underwriter**—Morgan Stanley & Co., New York. **Proceeds**—To retire $45,800,000 outstanding promissory notes and for general corporate purposes.

Brown Co., Berlin, N. H.
Jan. 25 filed 144,151 shares of $5 cumulative convertible preference stock (no par) and 144,151 shares of $3 cumulative second preference stock (no par), together with voting trust certificates representing the same, to be offered in exchange for 144,151 shares of $6 cumulative convertible preferred stock on basis of one share of each class of preference stock for each share of $6 preferred stock. **Underwriter**—None, but Georgeson & Co. will solicit exchanges.

Canadian Breweries, Ltd.
Feb. 8 filed 61,220 shares of common stock (no par) to be offered in exchange for Brewing Corp. of America common stock on basis of two shares for each Brewing Corp. share held. **Underwriter**—None, but Georgeson & Co., New York, will solicit exchanges.

• **Central Airlines, Inc., Ft. Worth, Tex.**
Feb. 9 (letter of notification) 1,000 shares of 5% cumulative non-convertible preferred stock (par $100), 2,000 shares of class A voting common stock (par $1) and 2,000 shares of class B non-voting common stock (par $1) to be offered in units of one preferred share and two shares each of class A and class B stock. **Price**—$104 per unit. **Underwriter**—None. **Proceeds**—To retire indebtedness and for general operation of airline. **Office**—6109 Camp Bowie Boulevard, Ft. Worth, Texas.

Central Illinois Electric & Gas Co.
Jan. 29 filed 80,000 shares of common stock (par $15) offered to common stockholders at rate of one share for each seven shares held on Feb. 19, 1951, with an oversubscription privilege; rights to expire March 8. **Price**—$20 per share. **Dealer-Managers**—Stone & Webster Securities Corp. and Allen & Co., both of New York. **Proceeds**—For construction program.

Central Illinois Light Co.
Jan. 25 filed 100,000 shares of common stock (no par) being offered to common stockholders of record Feb. 13 at rate of one share for each eight shares held, with an oversubscription privilege subject to subscription rights of employees to expire on Feb. 28. Rights to stockholders to expire on March 2, 1951. **Price**—$32.25 per share. **Underwriters**—Union Securities Corp.; Lehman Brothers; White, Weld & Co.; and A. C. Allyn & Co., Inc. **Proceeds**—For expansion program. Statement effective Feb. 13.

Central Louisiana Electric Co., Inc.
Jan. 25 filed 250,297 shares of common stock (par $10) and 21,480 shares of 4.5% preferred stock (par $100), of which the preferred stock and 214,800 shares are to be offered in exchange for shares of common stock of Gulf Public Service Co., Inc., on basis of 4/10ths of a share of common and 1/25th of a share of preferred for each Gulf common share. The remaining 35,497 common shares are reserved for possible future issuance and sale by the company to holders of common stock then outstanding. **Underwriter**—None. **Purpose**—To acquire not less than 429,600 shares (80%) of Gulf common stock.

• **Central Oklahoma Oil Corp.**
Feb. 9 (letter of notification) 299,970 shares of common stock (par 10 cents). **Price**—$1 per share. **Underwriter**—Israel & Co., New York. **Proceeds**—To drill oil well and to acquire oil properties. **Office**—Braniff Building, Oklahoma City, Okla. **Offering**—Made on Feb. 17.

Chanslor & Lyon-Palace Corp., San Francisco
Feb. 6 (letter of notification) 11,111 shares of capital stock (par $5). **Price**—At market (estimated at $9 per share). **Underwriter**—Hooker & Fay, San Francisco, Calif. **Proceeds**—To six selling stockholders. **Office**—730 Polk Street, San Francisco, Calif.

• **Cinecolor Corp., Burbank, Calif.**
Feb. 9 (letter of notification) 75,000 shares of common stock (par $1). **Price**—$4 per share. **Underwriters**—Kerr & Bell, Witherspoon & Co., Inc., Harbison & Henderson Holton, Hull & Co. Pacific Co. of California Edgerton, Wykoff & Co. and Fairman & Co., Los Angeles, Calif. Edward D. Jones and Dempsey-Tegeler & Co., St. Louis, Mo.; and Standard Investment Co. of California and Leo G. MacLaughlin Securities Co., Pasadena, Calif. **Proceeds**—To convert equipment from two-color printing process to three color process. **Office**—2800 West Olive Ave., Burbank, Calif.

Circle Wire & Cable Corp.
Nov. 27 filed 200,000 shares of common stock (par $5). **Price**—$15 per share. **Underwriter**—Van Alstyne Noel Corp., New York. **Proceeds**—To four selling stockholders.

• **Commonwealth Telephone Co., Madison Wis. (3/7)**
Feb. 20 (letter of notification) 10,000 shares of $5 cumulative preferred stock (par $100). **Price**—To be supplied by amendment. **Underwriter**—Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp., New York. **Proceeds**—For construction.

Consolidated Edison Co. of N. Y., Inc. (2/27)
Jan. 24 filed $60,000,000 of first and refunding mortgage bonds, series F, due Feb. 1, 1981. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston, Corp. **Proceeds**—To repay bank loans. **Bids**—To be received by company at 4 Irving Place, New York, N. Y., up to 11 a.m. (EST) on Feb. 27.

Consolidated Textile Co., Inc., New York
Dec. 27 filed a maximum of 500,000 shares of capital stock (par 10 cents), to be offered in exchange for an unspecified number of shares of common stock of Bates Manufacturing Co. (Consolidated now owns 51,400 shares, or approximately 13% of the 391,500 outstanding Bates shares). **Exchange Rate**—To be supplied by amendment. **Underwriter**—None.

Cosmopolitan Hotel Co. of Dallas, Tex.
Dec. 13 filed $1,500,000 of 2% debentures due 1965. **Price**—At face value. **Underwriter**—None. **Proceeds**—To purchase debentures of Statler Dallas Co., Inc., which company will construct Dallas hotel. **Business**—A non-profit corporation under sponsorship of Dallas Chamber of Commerce to secure construction of hotel.

Cribben & Sexton Co., Chicago, Ill.
Feb. 5 (letter of notification) 1,000 shares of common stock (par $5). **Price**—$5.50 per share. **Underwriters**—David Noyes & Co. and Swift, Henke Co. of Chicago, Ill. **Proceeds**—To selling stockholder.

Culver Corp., Chicago, Ill.
Oct. 23 filed 132,182 shares of common stock (par $5), of which 4,818 shares are to be offered to stockholders and 127,364 shares to public. **Price**—To stockholders at $5 per share and to public at $6.25 per share. **Underwriter**—None. **Proceeds**—For investments.

• **Cutter Laboratories, Berkley, Calif. (3/14-15)**
Feb. 16 filed 70,100 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—Blyth & Co., Inc., New York. **Proceeds**—For expansion and other corporate purposes. **Business**—Distribution and sale of biologicals and pharmaceutical specialties.

• **Delaware Research & Development Corp.**
Feb. 12 (letter of notification) 30,000 shares of capital stock. **Price**—At par ($10 per share). **Underwriter**—None. Proceeds—To purchase capital assets and for working capital. **Address**—P. O. Box 110, New Castle, Delaware.

Duggan's Distillers Products Corp.
Oct. 27 (letter of notification) 340,000 shares of common stock (par 10c). **Price**—75 cents per share. **Underwriter**—Olds & Co., Jersey City, N. J. **Proceeds**—To pay balance of purchase price for building ($20,000) and for working capital.

• **Duro-Test Corp., No. Bergen, N. J.**
Feb. 12 (letter of notification) not in excess of 7,500 shares of common stock (par $1) to be offered to employees. **Price**—Not to exceed $7 per share. **Underwriter**—None. **Proceeds**—To reimburse company for cost of shares.

• **Electronic Computer Corp., Brooklyn, N. Y.**
Feb. 2 (letter of notification) 90,000 shares of class B non-voting common stock (par $1). **Price**—$3 per share. **Underwriters**—Pioneer Enterprises, Inc., Bluefield, W. Va., and G. H. Hecht of Washington 5, D. C. **Proceeds**—To provide working capital.

Emerson Electric Manufacturing Co.
Dec. 29 filed 57,846 shares of cumulative preferred stock, series A (par $50), convertible into common stock prior to Jan. 1, 1961, to be offered initially for subscription by common stockholders at rate of one share of preferred for each eight common shares held. **Underwriters**—Smith, Barney & Co. and Van Alstyne Noel Corp., of New York; and Newhard, Cook & Co., St. Louis, Mo. **Proceeds**—$1,015,565 to retire outstanding 7% preferred stock; $450,000 for new plant in Bedford, Ind.; approximately $350,000 to reimburse the company's treasury for cash funds used in the purchase of its St. Louis plant from the U. S. Government in September, 1950; and the balance for additional working capital. Statement withdrawn Feb. 13.

Facsimile & Electronics Corp.
Dec. 29 filed 400,000 shares of class A convertible stock (par $1) and 1,000,000 shares of common stock (par 25 cents) to be reserved for conversion. **Price**—$2.50 per share for class A stock, with an underwriting commission of 50 cents per share. **Underwriter**—Graham, Ross & Co., Inc., New York. **Proceeds**—To repay indebtedness to RFC, and the balance to develop and produce fascimile transmission equipment and for materials. Registration statement withdrawn on Feb. 16.

Fleetwood-Airflow, Inc., Wilkes-Barre, Pa.
Jan. 22 (letter of notification) 28,000 shares of common stock (par 50 cents). **Price**—At market (estimated at $1.25 per share). **Underwriter**—De Pasquale Co., New York, and J. Howard O'Connor, Pelham, N. Y. **Proceeds**—To selling stockholders.

General American Oil Co. of Texas
Feb. 5 filed 90,748 shares of common stock (par $5). **Price**—To be supplied by amendment. **Underwriter**—Sanders & Newsom, Dallas, Texas. **Proceeds**—For working capital and to acquire and develop oil and gas properties. Expected late this month.

• **Gladys Stevens, Inc., Boston, Mass.**
Feb. 13 (letter of notification) 475 shares of class A voting stock (par $20) and 1,000 shares of non-voting class B stock (par $20). **Price**—At par. **Underwriter**—None. **Proceeds**—For expansion. **Office**—476 Stuart Street, Boston, Mass.

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Glenmore Distilleries Co.
Dec. 28 filed 159,142 shares of class B common stock (par $1). **Price** — To be filed by amendment. **Underwriter**—Glore, Forgan & Co., New York. **Proceeds**—For working capital and general corporate purposes. **Offering**—Deferred indefinitely.

Gulf Insurance Co., Dallas, Tex.
Jan. 10 (letter of notification) 10,000 shares of common stock (par $10), to be offered to present stockholders on the basis of one new share for each 15 shares held; unsubscribed shares to be offered to public. **Price**—$30 per share. **Underwriter**—None. **Proceeds**—For working capital. **Address**—P. O. Box 1771, Dallas, Tex.

Hamilton Fire Insurance Co., Philadelphia
Oct. 2 (letter of notification) 64,000 shares of capital stock (par $5). **Price**—$4.50 per share. **Underwriter**—Jenks, Kirkland & Co., Philadelphia, Pa. **Proceeds**—To increase capital and surplus in order to offer additional lines of insurance, including automobile casualty and liability coverage. Financing indefinitely delayed.

Idaho Maryland Mines Corp., San Francisco, California
Jan. 30 (letter of notification) 200,000 shares of capital stock, to be sold to C. Marshall Wood pursuant to an agreement. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—Room 362, Russ Building, San Francisco, Calif.

● **Insurance Securities Inc., Oakland, Calif.**
Feb. 16 filed 5,700 units, single payment plan, series U, and 7,750 units, accumulative plan, series E, 10-year participating agreements. **Price** — $1,000 per unit for series U and $1,200 per unit for series E. **Underwriter**—None. **Proceeds**—For investment.

Israel Steel Corp.
Jan. 2 (letter of notification) 15,000 shares of common stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—For corporate purposes and the purchase of merchandise (steel) for resale. **Office**—Care of Efrein & Metrick, 320 Broadway, New York, N. Y.

Jamaica Water Supply Co.
Feb. 7 (letter of notification) 4,545 shares of common stock (no par). **Price**—At market (estimated at $22 per share. **Underwriter**—Blyth & Co., Inc., New York, who has agreed to purchase said shares for resale to public. **Proceeds**—To selling stockholders.

● **Jeanette Glass Co., Jeanette, Pa.**
Feb. 12 (letter of notification) 10,000 shares of common stock (par $1). **Price**—At market price on New York Curb Exchange (approximately $7.12½ per share). **Underwriter**—None, but brokerage accounts are maintained at Hallgarten & Co., New York; R. V. Nuttall & Co.; McKelvy & Co. and Hemphill, Noyes, Graham, Parsons & Co., all of Pittsburgh, Pa. **Proceeds**—To Kirk W Todd, Chairman of the Board, who is the selling stockholder.

Kaman Aircraft Corp., Windsor Locks, Conn.
Feb. 7 (letter of notification) 20,000 shares of class A non-voting common stock (no par). **Price**—$6 per share. **Underwriter**—None. **Proceeds**—For working capital to develop and manufacture rotary wing aircraft. **Office**—Bradley Field, Windsor Locks, Conn.

Kansas-Nebraska Natural Gas Co., Inc.
Jan. 5 filed 122,812 shares of common stock (par $5), offered for subscription by common stockholders of record Feb. 15 at rate of one share for each five shares held; rights to expire on March 1; unsubscribed shares to be offered to employees. **Price**—$15 per share for common. **Underwriters**—The First Trust Co. of Lincoln, Neb., and Cruttenden & Co., Chicago, Ill., and associates. **Proceeds**—For new construction. Statement effective Feb. 15.

● **Kimberly-Clark Corp., Neenah, Wis. (3/7)**
Feb. 15 filed 200,000 shares of common stock (no par). **Price**—To be supplied by amendment. **Underwriter**—Blyth & Co., Inc., New York. **Proceeds**—For expansion program.

Kimberly Corp., Culver City, Calif.
Jan. 29 (letter of notification) 34,500 shares of common stock (par $1). **Price**—$2.87½ per share. **Underwriter**—Morgan & Co., Los Angeles, Calif. **Proceeds**—To three selling stockholders.

Kingfisher Water Co., Kingfisher, Okla.
Dec. 27 (letter of notification) 250 shares of 5% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For new construction. Offering has been deferred.

Kingsburg Cotton Oil Co.
Jan. 24 (letter of notification) 5,000 shares of capital stock (par $1). **Price**—At market (about $4.25 per share). **Underwriter**—Fewel & Co., Los Angeles, Calif. **Proceeds**—To Fewel & Co., the selling stockholder. **Address**—P. O. Box 277, Kingsburg, Calif.

Kingsburg Cotton Oil Co., Kingsburg, Calif.
Jan. 29 (letter of notification) 5,000 shares of capital stock (par $1). **Price**—$4.25 per share. **Underwriter**—Fewel & Co., Los Angeles, Calif. **Proceeds**—To John H. Dinkins, the selling stockholder. **Address**—P. O. Box 277, Kingsburg, Calif.

● **Kittanning Telephone Co., Kittanning, Pa. (3/1)**
Feb. 15 (letter of notification) 6,021 shares of capital stock (par $25) to be offered, first to stockholders of record Feb. 24 at rate of 223/1000ths of a share for each share held; right to expire on March 31. Unsubscribed shares to be offered publicly. **Price**—$45 per share. **Underwriter** — None. **Proceeds** — To convert to dial equipment and for expansion program. **Offering**—Expected to be mailed on March 1. **Office**—208 Arch St., Kittanning, Pa.

NEW ISSUE CALENDAR

February 23, 1951
Warren (J. C.) Corp.____Common

February 24, 1951
Lake Superior District Power Co.____Common
Shropshire Syndicate, Ltd.____Common

February 26, 1951
Aluminium, Ltd.____Common
Armco Steel Corp.____Common
Premier Distributors, Inc.____Preferred
Standard Fruit & Steamship Corp.____Preference
Tennessee Gas Transmission Corp. 11:30 a.m. (EST)____Bonds

February 27, 1951
Consolidated Edison Co. of New York, Inc. 11 a.m. (EST)____Bonds
Mexican Gulf Sulphur Co.____Common
Standard-Thomson Corp.____Debentures

February 28, 1951
Chicago & North Western Ry. noon (CST)____Equip. Trust Ctfs.

March 1, 1951
Kittanning Telephone Co.____Common
Metal Products Mfg. Co., Inc.____Common
Television Ventures, Inc.____Common

March 5, 1951
Lake Superior District Power Co. 11:30 a.m. (CST)____Bonds
Prospect Exploration, Ltd.____Common
Rhinelander Paper Co.____Common

March 6, 1951
Rotary Electric Steel Co.____Common

March 7, 1951
Borden Co.____Debentures
Commonwealth Telephone Corp.____Preferred
Kimberly-Clark Corp.____Common
Transcontinental Gas Pipe Line Corp.____Preferred
West Penn Electric Co. 11 a.m. (EST)____Common

March 8, 1951
Virginia Electric & Power Co.____Preferred

March 12, 1951
American Dairy Products Corp.____Pfd. & Common

March 13, 1951
Allied Laboratories, Inc.____Common

March 14, 1951
Cutter Laboratories____Common

March 19, 1951
Bachmann Uxbridge Worsted Corp.____Common
Illinois Central RR.____Equip. Trust Ctfs.
Pacific Gas & Electric Co.____Common

March 20, 1951
Pennsylvania Power Co.____Preferred

March 21, 1951
River Brand Rice Mills, Inc.____Common

March 27, 1951
Consumers Power Co.____Bonds

March 29, 1951
American Gas & Electric Co.____Common

April 2, 1951
Detroit Edison Co.____Common

April 3, 1951
Potomac Edison Co.____Bonds
Southern Co., 11:30 a.m. (EST)____Common

April 9, 1951
Public Service Co. of Oklahoma____Bonds

April 24, 1951
Monongahela Power Co.____Bonds

June 5, 1951
Georgia Power Co.____Bonds

July 17, 1951
Mississippi Power Co.____Preferred

September 11, 1951
Alabama Power Co.____Bonds

● **Kurz (Chas.) & Co., Inc., Philadelphia, Pa.**
Feb. 19 (letter of notification) 30,000 shares of common stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To increase working capital. **Office**—1000 Walnut Street, Philadelphia 7, Pa.

● **La Salsa Products, Inc., Riverside, Conn.**
Feb. 14 (letter of notification) 100,000 shares of common stock (par $1). **Price**—$2.50 per share. **Underwriter**—None. **Proceeds**—For new machinery and working capital.

Lake Superior District Power Co. (2/24)
Feb. 5 filed 41,845 shares of common stock (par $20) to be offered to common stockholders of record Feb. 16 on a one-for-five basis; rights to be mailed Feb. 24, to expire March 12. **Price**—To be supplied by amendment. **Underwriters**—Robert W. Baird & Co., Inc., Milwaukee, Wis. **Proceeds**—For new construction.

Lake Superior District Power Co. (3/5)
Feb. 5 filed $2,000,000 first mortgage bonds series D, due March 1, 1981. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Otis & Co.; Robert W. Baird & Co., Inc. **Proceeds**—For expansion program. **Bids**—To be received by company in Room 2154, 20 No. Wacker Drive, Chicago 6, Ill., up to 11:30 a.m. (CST) on March 5.

Lakeville Water Co., Lakeville, Conn.
Jan. 25 (letter of notification) 1,200 shares of common stock to be offered first to stockholders of record Feb. 2, 1951; rights to expire on Feb. 28, 1951. **Price**—At par ($25 per share). **Underwriter**—None, but unsubscribed shares will be offered at private sale to public through the Salisbury Bank & Trust Co., as agents, at par. **Proceeds**—For expansion program.

● **Langley Corp., San Diego, Calif.**
Feb. 9 (letter of notification) 160,000 shares of common stock (par $1). **Price**—$1.75 per share. **Underwriter**—None. **Proceeds** — For working capital. **Office** — 660 Second Avenue, San Diego, Calif.

Lexa Oil Corp., Conrad, Mont.
Jan. 19 (letter of notification) 1,200,000 shares of common stock (par 1¢), to be offered initially to stockholders of record Jan. 19 on a one-for-two basis; rights to expire March 7. **Price**—25 cents per share to stockholders; 30 cents to public. **Underwriter**—Tellier & Co., New York. **Proceeds**—To drill wells and develop leases.

● **Maine Central RR.**
Feb. 12 (letter of notification) 4,800 shares of common stock (par $100). **Price**—At market. **Underwriter**—Stillman, Maynard & Co., New York. **Proceeds**—To selling stockholder.

● **Metal Products Mfg. Co., Inc. (3/1)**
Feb. 12 (letter of notification) 25,000 shares of class A voting common stock (par $1). **Price**—$5 per share. **Underwriter**—James T. DeWitt & Co., Washington, D. C. **Proceeds** — For organizational expenses and working capital. **Office**—Wolfe and Jackson Sts., Fredericksburg, Va.

● **Mexican Gulf Sulphur Co. (2/27)**
Feb. 16 (letter of notification) 42,800 shares of common stock (par $10 cents). **Price**—At the market (estimated at $7 per share). **Underwriter**—George B. Wallace & Co., New York. **Proceeds**—To further develop company's properties and for general working capital.

Mission Appliance Corp., Hawthorne, Calif.
July 24 filed 50,000 shares of 6% cumulative convertible preferred stock. **Price**—At par ($20 per share.) **Underwriter**—Lester & Co., Los Angeles, Calif. **Proceeds**—To retire bank loans and install machinery and equipment in a proposed new plant to be located east of the Rocky Mountains. **Business**—Manufacturers of gas and electric water and space heaters. Statement withdrawn Feb. 9.

● **Mutual Fund of Boston, Inc., Boston, Mass.**
Feb. 15 filed 20,000 shares of capital stock (par $1) **Price**—At net aset value plus 8%. **Underwriter and Investment Manager**—Russell, Berg & Co., Boston. **Proceeds**—For investment.

New Hampshire Electric Co.
Jan. 25 filed 15,000 shares of $4.50 cumulative preferred stock (par $100) and 140,000 shares of common stock (no par). Of the latter, 130,100 shares are to be offered for subscription by common stockholders of New England Gas & Electric Association (parent) at rate of one New Hampshire share for each 12 New England common shares held. **Underwriter**—To be determined by competition biddnig. Probable bidders: The First Boston Corp.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Harriman Ripley & Co., Inc. (latter for preferred only). **Proceeds**—To retire $2,425,000 of 2⅞% bonds and the remainder to retire 4½% preferred stock of New England. Expected late in February.

Norden Laboratories, Lincoln, Neb.
Jan. 31 (letter of notification) 11,055 shares of capital stock to be offered first to stockholders of record about Feb. 12 on a 1-for-2 basis: unsubscribed shares to be publicly offered. **Price**—$25 per share to stockholders, and $26.50 to public. **Underwriter**—Ellis, Holyoke & Co., Lincoln, Neb. **Proceeds**—For working capital and to produce anti-hog cholera serum and other pharmaceutical products. **Office**—227 North 9th Street, Lincoln, Nebraska.

● **Norris Oil Co., Bakersfield, Calif.**
Feb. 7 (letter of notification) 1,000 shares of capital stock (par $1). **Price**—500 shares at $3.50 each and 500 at $4 each. **Underwriter**—E. F. Hutton & Co., Los Angeles, Calif. as to 500 shares. **Proceeds**—To A. W. Scott, a selling stockholder.

Pact Gas Co., Cushing, Okla.
Jan. 8 (letter of notification) $50,000 of first mortgage serial 6% bonds due 1961-1971. **Price**—At 100%. **Underwriter**—R. J. Edwards, Inc., Oklahoma City, Okla. **Proceeds**—To retire certain capital stock and for construction. **Office**—212 East Broadway, Cushing, Okla.

● **Palestine Economic Corp., New York**
Feb. 15 filed 200,000 shares of common stock (par $25). **Price**—$28 per share. **Underwriter**—None. **Proceeds**—For further development of Israel industry.

Pan American Milling Co., Las Vegas, Nev.
Jan. 24 filed 200,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To purchase machinery and equipment, to construct a mill in Mexico and for general corporate purposes.

● **Pennsylvania Power Co. (3/20)**
Feb. 16 filed 40,000 shares of preferred stock (par $100) to public. **Underwriter**—To be determined by competitive bidding. Probable bidders: Kidder, Peabody & Co. and White, Weld & Co. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); First Boston Corp.; and Blyth & Co., Inc. (jointly); Lehman Brothers; Smith, Barney & Co.; Harriman Ripley & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—From sale of preferred stock, together with proceeds from sale to Ohio Edison Co., parent, of 40,000 additional common shares (par $30) for $1,200,000 cash, will be used to finance in part the company's construction program for

1951. **Bids**—To be opened around March 20. **Additional Financing**—It is estimated an additional $7,000,000 of financing will be required before the end of 1952.

Piasecki Helicopter Corp., Morton, Pa.
Feb. 2 (letter of notification) not to exceed 5,000 shares of capital stock. **Price**—At market (approximately $35 per share). **Underwriter**—None. To be offered through regular brokers acting as agent for the seller. **Proceeds**—To A. Felix du Pont, Jr., the selling stockholder. Not consummated. Registration subsequently withdrawn.

● **Piedmont Natural Gas Co., Inc., Spartanburg, South Carolina**
Feb. 20 filed 100,000 shares of common stock (par $1) to be offered to common stockholders at rate of one share for each 2½ shares held. **Price**—$4.50 per share. **Underwriter**—White, Weld & Co., New York. **Proceeds** — To construct and operate six lateral pipe lines. Expected around first or second week in March.

● **Pikes Peak Mine Development Association**
Jan. 20 (letter of notification) 30,000 shares of capital stock (no par). **Price**—$1 per share. **Underwriter**—None. **Proceeds**—To buy machinery required to mill and concentrate ore. **Address**—P. O. Box 1178, Billings, Mont.

Piper Aircraft Corp., Lock Haven, Conn.
Feb. 5 (letter of notification) 25,000 shares of common stock (par $1). **Price**—At market on New York Curb Exchange (about $3.50 per share). **Underwriter**—None, but sale will be made through Josephthal & Co., New York, **Proceeds**—To William T. Piper, President, the selling stockholder.

● **Premier Distributors, Inc., N. Y. (2/26)**
Feb. 15 (letter of notification) 2,000 shares of 6½% cumulative non-convertible preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To be loaned to Premier Peet Moss Producers, Ltd., an affiliate. **Office**—535 Fifth Avenue, New York City.

Prospect Exploration, Ltd. (Canada) (3/5-10)
Feb. 9 filed 170,000 shares of common stock (par $1), of which 75,000 will be sold for the account of the company and 95,000 shares for selling stockholders. **Price**—$11 per share. **Underwriter**—White, Weld & Co., New York. **Proceeds**—To company for working capital and general working purposes.

● **Reis (Robert) & Co.**
Feb. 19 (letter of notification) 4,100 shares of $1.25 dividend prior preference stock (par $10) and 20,500 shares of common stock (par $1). **Price**—At market (common about $2.50 each and preferred about $11.87½ each). **Underwriter**—None, but Lehman Brothers will act as broker. **Proceeds**—To selling stockholder.

● **Rhinelander Paper Co. (3/5-10)**
Feb 15 filed 150,000 shares of common stock (par $5). **Price**—To be supplied by amendment. **Underwriter**—A. G. Becker & Co., Inc. **Proceeds**—To reduce long-term debt by $2,150,000; for additions and improvements to property and for working capital. Expected week of March 5.

● **Ritter Finance Co., Inc., Jenkintown, Pa.**
Feb. 20 (letter of notificatin) 4,948 shares of 5½% cumulative preferred stock . **Price**—At par ($50 per share). **Underwriter**—None. **Proceeds**—For working capital—to make loans. **Office**—741-A Yorkway Place, Jenkintown, Pa.

● **Rotary Electric Steel Co. (3/6)**
Feb. 15 filed 48,419 additional shares of common stock (par $10), to be offered for subscription by common stockholders of record on or about March 6 at rate of one share for each four shares held; rights to expire about March 20. **Price**—To be supplied by amendment. **Underwriter**—W. E. Hutton & Co., Cincinnati, O. **Proceeds**—For expansion program and working capital.

● **Rudy Mfg. Co., Dowagiac, Mich.**
Feb. 8 (letter of notification) options to be issued to William A. Collins, Vice-President to purchase 10,000 shares of common stock (par $1), exercisable only in its entirety at any time prior to Sept. 30, 1955. **Price**—$3 per share. **Proceeds** — For working capital. **Office** — East Prairie Ronde Street, Dowagiac, Mich.

● **Shropshire Syndicate, Ltd., Levittown, N. Y. (2/24)**
Feb. 16 (letter of notification) 9,000 shares of common stock (par $1). **Price**—$5 per share. **Underwriter**—None, but will be offered "as a speculation" through the Syndicate's officers. **Proceeds**—To Herbert Marshall Taylor (President), who is the selling stockholder. **Office**—2 Quiet Lane, Levittown, N. Y.

● **South American Gold & Platinum Co.**
Feb. 19 (letter of notification) 18,500 shares of common stock (par $1). **Price**—At market on New York Stock Exchange (approximately $5.37½ per share). **Underwriter**—None, but G. H. Walker & Co., New York, will act as brokers. **Proceeds**—To General Development Co., New York, the selling stockholder. **Offering**—To begin on Feb. 28, 1951, and to continue up to and including Feb. 19, 1952.

South State Uranium Mines Ltd. (Canada)
Nov. 30 filed 560,000 shares of capital stock. **Price**—At par ($1 per share). **Underwriter-Optionee**—Robert Irwin Martin of Toronto. **Proceeds**—For commissions, exploration and development expenses, and working capital.

Southern Union Gas Co.
Jan. 8 filed 150,799 shares of common stock (par $1) being offered for subscription by common stockholders of record Jan. 25 on basis of one new share for each 10 shares held. with an oversubscription privilege; rights to expire Feb. 26. **Price**—$16 per share. **Underwriter**—None. **Proceeds**—For construction. Statement effective Jan. 30.

● **Spider Uranium Mining Co., Inc., Pocatello, Ida.**
Feb. 13 (letter of notification) 2,500,000 shares of capital stock. **Price**—10 cents per share. **Underwriter**—None. Proceeds—For prospecting and developing mining claims.

Standard-Thomson Corp. (2/27)
Feb. 2 filed $1,500,000 of 5% sinking fund debentures, series B, due Sept. 1, 1967, with common stock warrants attached. **Price**—To be supplied by amendment. **Underwriters**—Lee Higginson Corp. and P. W. Brooks & Co., Inc., New York. **Proceeds**—To pay off RFC note, to repay bank loans and for working capital.

State Bond & Mortgage Co., New Ulm, Minn.
Feb. 5 filed $1,500,000 of accumulative savings certificates, series 1207-A at $95.76 per $100 principal amount and $15,000,000 of accumulative savings certificates, series 1217-A at $85.68 per $100 principal amount. **Underwriter**—None. **Business**—Investment.

Television Ventures, Inc., New York (3/1)
Feb. 1 (letter of notification) 49,000 shares of common stock. **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For organizational and general operating expenses. **Office**—55 West 42nd Street, New York, N. Y.

Tennessee Gas Transmission Co. (2/26)
Jan. 26 filed $35,000,000 of first mortgage pipeline bonds due Feb. 1, 1971. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly). **Proceeds**—To repay bank loans and for expansion program. **Bids**—To be received up to 11:30 a.m. (EST) on Feb. 26 at the office of Cahill, Gordon, Zachry & Reindel, 63 Wall St., New York 5, N. Y. Statement effective Feb. 16.

● **Thatcher Glass Manufacturing Co., Inc.**
Feb. 20 (letter of notification) 3,000 shares of common stock (par $5), to be offered to employees. **Price**—At cost or at market, whichever is lower. Cost price was $13 per share. **Underwriter**—None. **Proceeds**—To reimburse treasury for cost of shares. **Office**—1901 Grand Central Ave., Elmira, N. Y.

Thiokol Corp., Trenton, N. J.
Feb. 6 (letter of notification) 10,833 shares of capital stock (par $1). **Price**—At market (about $7.75 per share). **Underwriter** — None, but Smith, Barney & Co., New York, will handle sales. **Proceeds**—To Dow Chemical Co., the selling stockholder.

● **Tracerlab, Inc., Boston, Mass.**
Feb. 14 (letter of notification) 4,000 shares of common stock (par $1). **Price**—At market (about $20 per share). **Underwriter**—None. **Proceeds**—To American Research & Development Corp., Boston, Mass. **Office**—130 High St., Boston, Mass.

● **Transcontinental Gas Pipe Line Corp. (3/7)**
Feb. 15 filed 550,000 shares of $2.55 cumulative preferred stock (no par—stated value $50 per share). **Price**—To be supplied by amendment. **Underwriter**—White, Weld & Co. and Stone & Webster Securities Corp., New York. **Proceeds**—To redeem $26,500,000 outstanding 6% interim notes due May 1, 1951, at 106% and accrued interest.

● **Universal News Service, Inc., N. Y.**
Feb. 12 (letter of notification) 1,000 shares of common capital stock. **Price**—At the market. **Underwriter**—None. Meyer Nurenberger, President, will supervise and will personally solicit subscriptions. **Proceeds**—To be used to set up and develop a news service and to develop a weekly newspaper or newsletter. Office, 261 Broadway, New York 7, N. Y.

Utah Home Fire Insurance Co.
Jan. 9 (letter of notification) 10,000 shares of capital stock (par $10), to be first offered to stockholders of record Jan. 19 for subscription on or before Feb. 28, 1951, on basis of one share for each six shares held. **Price**—$20 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—47 West South Temple, Salt Lake City 1, Utah.

Virginia Electric & Power Co. (3/8)
Feb. 1 filed 100,000 shares of preferred stock (par $100). **Price**—To be supplied by amendment. **Underwriter**—Stone & Webster Securities Corp., New York. **Proceeds**—For construction expenditures. **Offering**—Expected in March. Preferred stockholders will vote March 2 on approving issuance of the new securities.

● **Warren (J. C.) Corp. (2/23)**
Feb. 15 (letter of notification) $56,000 of 5-year 4% convertible notes due Feb. 15, 1956. **Price**—At 100% in multiples of $70. **Underwriter**—Talmage & Co., New York. **Proceeds**—To repay bank and other debt, for leasehold improvements, machinery and equipment and working capital. **Office**—901 Merrick Road, Bellmore, L. I., N. Y.

● **Welex Jet Services, Inc.**
Feb. 9 (letter of notification) 2,000 shares of common stock (no par). **Price**—$20.50 per share. **Underwriters**—Laird & Co., Wilmington, Del.; and Barron McCulloch and Wm. N. Edwards & Co., both of Ft. Worth, Texas. **Proceeds**—To Robert H. McLemore, Vice-President, the selling stockholder. **Address**—P. O. Box 11307, Ft. Worth, Texas.

● **West Jersey Title & Guaranty Co.**
Feb. 16 (letter of notification) 1,818 shares of preferred capital stock (par $50). **Price**—Estimated at from $53 to $55 per share. **Underwriter**—Camden Trust Co., Camden, N. J. **Proceeds**—To latter, who is the selling stockholder. **Office**—300 Market St., Camden 1, N. J.

West Penn Electric Co. (3/7)
Jan. 31 filed 320,000 additional shares of common stock (no par) to be offered to its stockholders for subscription on the basis of one additional share for each ten shares held about March 9, with an oversubscription privilege; rights to expire March 26. Unsubscribed shares to be offered to employees of companies in the West Penn Electric System. **Underwriters**—To be determined by competitive bidding. Probable bidders: Lehman Brothers and Goldman, Sachs & Co. (jointly); Morgan Stanley & Co.; W. C. Langley & Co. and The First Boston Corp. (jointly); Harriman Ripley & Co., Inc. **Proceeds**—To purchase additional equity securities of two of its subsidiaries—Monongahela Power Co. and The Potomac Edison Co. **Bids**—Expected to be opened at 11 a.m. (EST) on March 7.

Yampa Valley Coal Co., Denver, Colo.
Feb. 6 (letter of notification) 30,000 shares of 7% cumulative participating preferred stock (par $5) and 30,000 shares of common stock (no par). **Price**—$5 per share. **Underwriter**—None. **Proceeds**—To engage in strip mining operations for coal, and for equipment and working capital. **Office**—506 Cooper Bldg., Denver, Co.

YWY International, Inc., Great Neck, L. I., N. Y.
Feb. 14 (letter of notification) 4,700 shares of class A common stock (non-voting). **Price**—At par ($50 per share). **Underwriter**—None. **Proceeds**—To establish a plant for manufacture, sale and distribution of pharmaceutical products; to purchase machinery and raw materials.

Prospective Offerings

Alabama Power Co. (9/11)
Feb. 6, it was stated that company contemplates issuance and sale of $10,000,000 first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Blyth & Co., Inc.; Harriman Ripley & Co., Inc.; Shields & Co. and Salomon Bros. & Hutzler (jointly); Drexel & Co.; Union Securities Corp. and Equitable Securities Corp. (jointly); Kidder, Peabody & Co.; The First Boston Corp.; Lehman Brothers. **Proceeds**—For expansion program. **Bids**—Tentatively expected to be opened on Sept. 11. **Registration**—About Aug. 10.

● **Aluminium, Ltd. (2/26-3/3)**
Feb. 15 it was announced about 300,000 shares of common stock will be publicly offered during the week of Feb. 26. **Underwriter** — The First Boston Corp., New York. **Proceeds**—To selling stockholders.

American Gas & Electric Co. (3/29)
Jan. 26 company announced that an offering of about 340,000 additional shares of common stock will be made to stockholders on or about March 30, 1951 on the basis of one share for each 15 shares held, together with an oversubscription privilege; rights to expire April 17. **Price**—To be filed by amendment. **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp'; Union Securities Corp.; Dillon, Read & Co. Inc., who will name compensation. **Proceeds**—To be invested in equity securities of the operating subsidiaries as part of the plan for financing the American Gas & Electric System's large construction program. **Registration**—Expected about Feb. 28. **Bids**—Expected to be received on March 29.

Appalachian Electric Power Co.
Feb. 5 it was stated the company plans to issue and sell about $18,000,000 of first mortgage bonds in May or June. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Union Securities Corp. (jointly); The First Boston Corp.; Harriman Ripley & Co., Inc. **Proceeds**—For property expansion and improvements, on which company may expend up to $90,000,000 during the next three years.

Arkansas Louisiana Gas Co.
Feb. 1 it was announced company plans issuance and sale of $27,500,000 new first mortgage 3% bonds, the proceeds to be used to repay bank loans ($20,125,000 at Nov. 30, 1949), to retire $3,500,000 funded debt incurred in 1950 and for construction program. The sale of these bonds is contingent upon approval by SEC of Arkansas Natural Gas Corp.'s plan to split itself into two new companies. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp. and Lazard Freres & Co. (jointly); Union Securities Corp.; Smith, Barney & Co.; Equitable Securities Corp.

Arkansas Natural Gas Corp.
Feb 1 announced unexchanged new 3¾% preferred stock (issuable in exchange for 6% preferred stock on basis of $10.60 of new preferred for each old share, under proposal to split company into two units) may be sold publicly.

Arkansas Power & Light Co.
Feb. 6 it was reported that the company will sell $8,000,000 additional first mortgage bonds, probably in late summer or early fall. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Stone & Webster Securities Corp. (jointly); Equitable Securities Corp. and Central Republic Co. (jointly); Union Securities Corp.; The First Boston Corp.; White, Weld & Co. **Proceeds**—For construction program, estimated to cost about $20,000,000 in 1951.

Atlantic City Electric Co.
Jan. 15 it was stated tentative plans call for the raising of about $2,250,000 through an offer of additional common stock on a 1-for-10 basis held around May or June. Probable underwriter: Union Securities Corp. Proceeds will be used to pay, in part, construction expenditures, which, it is estimated, will total about $5,400,000 in 1951.

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Atlantic City Electric Co.
Jan. 29, it was announced that the stockholders will on April 10 vote on a proposal to increase the authorized cumulative preferred stock from 100,000 to 150,000 shares. Previous preferred stock financing was handled by private placement through Union Securities Corp. and Smith, Barney & Co.

Bachmann Uxbridge Worsted Corp. (3/19)
Feb. 13 it was announced that between 200,000 and 300,000 shares of common stock will soon be registered with the SEC. **Price**—To be supplied by amendment. **Underwriters** — Kidder, Peabody & Co. and Bear, Stearns & Co. **Proceeds**—To selling stockholders.

Boston Edison Co.
Jan. 30, J. V. Toner, President, announced that company plans to issue $32,000,000 of securities to aid in financing its construction program, which, it estimated, will cost $65,300,000 through 1954. He added that no common stock financing is planned until 1955.

● **Bridgeport Gas Light Co.**
Jan. 19 it was reported company plans to convert to natural gas at, an estimated cost of about $800,000. Probable underwriters: Smith, Ramsey & Co., Inc., Bridgeport, Conn.

● **Bridgeport Hydraulic Co.**
Feb. 17 it was reported company plans to issue and sell an additional 44,000 shares of common stock, first to stockholders. **Underwriter** — Smith, Ramsey & Co., Inc., Bridgeport, Conn. **Proceeds**—For new construction.

Byers (A. M.) Co.
Jan. 25 L. F. Rains, President, revealed that the company is considering a plan to refinance its 7% cumulative participating preferred stock (par $100), about 50,000 shares outstanding. These shares are redeemable at 110 and accrued dividends. Holders may be offered in exchange a new convertible preferred stock, plus common stock. Company being advised by Blyth & Co., Inc., and Fahnestock & Co.

Carolina Power & Light Co.
Jan. 4 company informed the SEC that it intends to issue and sell approximately $20,000,000 of securities in addition to the $15,000,000 first mortgage bonds now being publicly offered.

Central Illinois Electric & Gas Co.
Jan. 25 stockholders approved a proposal to issue and sell publicly 25,000 shares of preferred stock (par $100). **Proceeds**—For construction program. **Offering**—Tentatively expected about the middle of March.

● **Chicago & North Western Ry. (2/28)**
Bids will be received up to noon (CST) on Feb. 28 at the office of the company, Room 1400, 400 West Madison St., Chicago 6, Ill., for the purchase of $6,555,000 equipment trust certificates to be dated March 15, 1951 and to mature in 15 annual instalments of $437,000 each on March 15 from 1952 to 1966, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers, (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.). No bid will be accepted for less than 99% of the principal amount plus accrued dividends from March 15, 1951 to date of delivery of said certificates.

Columbia Gas System, Inc.
Dec. 7 it was reported that corporation may issue and sell $35,000,000 of new securities in the Spring or early summer. Probable bidders for debentures: Halsey, Stuart & Co. Inc.; Morgan, Stanley & Co.; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly). Probable bidders for common stock, in event of competitive bidding: Morgan Stanley & Co.; Goldman, Sachs & Co. and Union Securities Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers; Shields & Co. and R. W. Pressprich & Co. (jointly). Proceeds will be used for expansion program.

● **Columbus & Southern Ohio Electric Co.**
Feb. 19, J. B. Poston, Chairman and President, announced company contemplates issuance and sale of additional common stock during the first half of 1951. If competitive, probable bidders may include Dillon, Read & Co., Inc.; Lehman Brothers and Kidder, Peabody & Co. (jointly); The First Boston Corp. **Proceeds**—For expansion program.

Commonwealth Edison Co.
Jan. 10 it was announced the company contemplates $181,000,000 additional financing through the sale of securities. Neither the nature nor the time of the new financing has been determined. Probable bidders for bonds or debentures: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Morgan Stanley & Co. Proceeds are to be used for construction program.

Consolidated Natural Gas Co.
Jan. 9 it was reported company contemplates issuance of between $50,000,000 and $60,000,000 of convertible debentures. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Paine, Webber, Jackson Curtis (jointly); Dillon, Read & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Morgan Stanley & Co. **Proceeds**—To finance construction program. **Offering**—Expected late in April.

Consumers Power Co. (3/27)
Jan. 26 company sought Michigan P. S. Commission authority to issue $40,000,000 of first mortgage bonds with interest not exceeding 2⅞% and maturing not earlier than 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Kuhn, Loeb & Co. and Union Securities Corp. (jointly); Harriman Ripley & Co., Inc. and The First Boston Corp. (jointly); White, Weld & Co. and Shields & Co. (jointly); Morgan Stanley & Co.; W. C. Langley & Co. and Glore, Forgan & Co. (jointly). **Proceeds**—To redeem $5,300,000 of first mortgage bonds, to repay $8,000,000 of bank loans and for 1951 construction program. **Bids**—Expected to be opened on March 27. **Registration**—Scheduled for Feb 23.

● **Denver & Rio Grande Western RR.**
Feb. 20 the company was reported to be considering issuance and sale, probably in May, of about $40,000,000 first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co. **Proceeds**—From sale of new bonds, together with other funds, to redeem $35,000,000 of 3%-4% first mortgage bonds, series A, due Jan. 1, 1993, and $8,666,900 of Denver & Salt Lake income mortgage 3%-4% bonds, due Jan. 1, 1993.

Detroit Edison Co. (4/2)
Jan. 29 it was announced company plans to offer about 850,000 shares of additional common stock to its stockholders on the basis of one share for each ten shares held. **Price**—At par ($20 per share). **Underwriter**—None. **Proceeds**—For construction program.

Detroit Steel Corp.
Jan. 30 the management disclosed that it had approved plans to double the company's ingot capacity to 1,290,000 tons annually and to increase its finishing capacity from the present 180,000 tons to more than 1,000,000 tons at the company's Portsmouth, Ohio, works. The expansion program is estimated to cost about $50,000,000. The method of financing is being determined. In January of 1950, $15,000,000 of bonds were placed privately.

● **Duke Power Co.**
Feb. 16 it was stated that company plans to issue and sell some bonds to take care of part of its construction program. Underwriters—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Stone & Webster Securities Corp.; The First Boston Corp.

● **Englander, Inc.**
Feb. 19, it was reported to be contemplating new financing. Underwriter—Glore, Forgan & Co., Chicago, Ill.

Florida Power Corp.
Feb. 13 it was announced common stockholders will vote March 29 on a proposal to increase the authorized common stock (par $7.50) from 1,600,000 to 2,500,000 shares and the authorized preferred stock (par $100) from 120,000 to 250,000 shares. Underwriters for preferred stock to be determined by competitive bidding. Probable bidders may include Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc.; Equitable Securities Corp.; Union Securities Corp. Probable underwriters for common stock. Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane.

Food Machinery & Chemical Corp.
Jan. 29, P. L. Davies, President, announced an expansion program which will involve well in excess of $25,000,000, to be financed, in part, by the issuance of $25,000,000 of debentures. Later it is probable rights may be given to stockholders to purchase additional common stock, possibly by the end of 1952 or early 1953. Traditional underwriters: Kidder, Peabody & Co.; Mitchum, Tully & Co.

● **Foote Mineral Co.**
Feb. 15 stockholders approved an increase in authorized common stock from 100,000 to 300,000 shares to provide for the payment of a 200% stock dividend on the 57,995 outstanding shares, par $2.50. G. H. Chambers, Vice-President, stated that the company is committed to a policy of expansion. "This," he said, "will require more money, and the directors later this year may seek some form of new capital." Traditional underwriter—Estabrook & Co., New York. Expected this Spring.

Georgia Power Co. (6/5)
Jan. 8 it was reported company may issue and sell $20,000,000 of new first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Drexel & Co.; Lehman Brothers; Harriman Ripley & Co. Inc.; Shields & Co. and Salomon Bros. & Hutzler (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); The First Boston Corp.; Kuhn, Loeb & Co.; Union Securities Corp. and Equitable Securities Corp. (jointly). **Proceeds**—For construction program. **Bids**—Tentatively expected to be opened on June 5. **Registration**—Scheduled for April 4.

Gibraltar Steel Corp., Trenton, Mich.
Jan. 29 it was announced company is being formed to operate a $100,000,000 fully-integrated steel plant with a capacity of 700,000 tons of ingots annually, to be built at Trenton, Mich. C. S. Eaton, of Otis & Co., who will be Chairman of the Board, stated that no public offering of securities would be involved.

Granite City Steel Co.
Jan. 26 it was announced that company plans to offer additional common stock to common stockholders following proposed 2-for-1 split-up of 497,201 shares and change in par value from no par to $12.50 per share to be voted upon March 12. It is planned to raise $6,000,000. Traditional underwriter: Merrill Lynch, Pierce, Fenner & Beane, New York. Proceeds will be used for expansion.

Greenwich Gas Co., Greenwich, Conn.
Feb. 7 stockholders were to vote on approving issuance and sale of 60,000 additional shares of common stock at $5 per share to common stockholders on a 2.045-for-1 basis and to issue and sell 8,000 additional shares of preferred stock. **Underwriter**—F. L. Putnam & Co., Boston, Mass.

Gulf Power Co.
Feb. 6, it was reported that this company may sell securities "for new money" this year. In event of preferred stock issue, probable bidders may be Kidder, Peabody & Co. and White, Weld & Co. (jointly); Equitable Securities Corp.; Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Harriman Ripley & Co., Inc. But definite plans have not as yet been formulated.

● **Harrison-Rye Realty Corp., N. Y.**
Bids are invited for purchase of 5,000 shares of class A preferred stock (no par value) of the above company from Commodore Hotel, Inc., 42nd St. and Lexington Ave., New York 17, N. Y.

Idaho Power Co.
Feb. 6, it was reported that this company will raise $18,500,000 through sale of securities this year. It is believed that this financing will be through sale of mortgage bonds and preferred stock. Bond financing may be private, while preferred stock may be underwritten by Wegener & Daly Corp., Boise, Idaho. Proceeds would go toward expansion program, which, it is estimated, will cost nearly $23,000,000 for 1951.

Illinois Central RR.
Jan. 22 the directors authorized the executive committee to plan for the refunding of Illinois Central RR. and Chicago, St. Louis & New Orleans RR. joint $18,812,000 of first refunding mortgage bonds due 1963 (including $14,611,000 of 4½% series "C" and $4,201,000 of 4% series "D" bonds). It is reported that $20,000,000 of new consolidated mortgage bonds will be issued. Probable underwriter—Kuhn, Loeb & Co., New York. No immediate financing expected.

Illinois Central RR. (3/19)
Feb. 13, it was reported company expected to raise $6,800,000 through the sale of equipment trust certificates. **Bids**—Tentatively scheduled to be received on March 19. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; The First Boston Corp.

Jersey Central Power & Light Co.
Feb. 13 company asked SEC permission to issue and sell 40,000 shares of cumulative preferred stock (par $100). **Underwriters**—To be determined by competitive bidding. Probable bidders include Glore, Forgan & Co.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); The First Boston Corp.; Union Securities Corp. and Salomon Bros. & Hutzler (jointly). **Proceeds**—For new construction. Early registration expected. **Bids**—Tentatively scheduled for mid-March.

Jersey Central Power & Light Co.
Feb. 13 company requested SEC authorization to issue and sell $1,500,000 first mortgage bonds due in 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Shields & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Otis & Co.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc.; Kidder, Peabody & Co.; Glore, Forgan & Co. **Proceeds**—For expansion program. **Bids**—Tentatively scheduled to be received in mid-March.

Kansas City Power & Light Co.
Feb. 7, Harry B. Munsell, President, announced company expects to raise $15,000,000 of new money through the sale of new securities, including from $5,000,000 to $8,000,000 preferred stock, and the remainder common stock and bonds. Probable bidders for preferred stock: Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Smith, Barney & Co.; The First Boston Corp.; White, Weld & Co., Shields & Co. and Central Republic Co. (jointly); Harriman Ripley & Co., Inc.; Salomon Bros. & Hutzler and Merrill Lynch, Pierce, Fenner & Beane (jointly); Union Securities Corp. and Stern Bros. & Co. (jointly). Probable bidders for common stock: Lehman Brothers; Glore, Forgan & Co.; Harriman Ripley & Co., Inc.

● **Kansas-Nebraska Natural Gas Co., Inc.**
Feb. 15, it was announced that company plans to raise $4,200,000 through the sale of debentures or first mortgage bonds in the spring of 1951 (this is in addition to current sale of 10,950 shares of $5 cumulative preferred stock (no par) at $105 per share plus accrued dividends and 133,812 shares of common stock (par $5) at $15 per share (the latter to common stockholders). The bond financing early last year was placed privately through Central Republic Co. (Inc.), Chicago, Ill. The proceeds are to be used for the company's expansion program.

Laclede Gas Co.
Jan. 30, R. W. Otto, President, stated it appears likely that the company will sell additional mortgage bonds some time this year to finance its 1951 construction requirements. During the current fiscal year, he said, about $10,000,000 may be spent for new construction, of which more than $4,000,000 had been spent up to Dec. 31, 1950. It was also stated that the company is giving serious consideration to early refinancing of its outstanding $19,000,000 3½% bonds due Feb. 1, 1965, and $6,500,000 3½% bonds due Dec. 1, 1965, through the issuance of possibly $28,000,000 of new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Goldman, Sachs & Co.; White, Weld & Co.; Lehman Brothers and Merrill Lynch, Pierce, Fenner & Beane (jointly).

● **Lake Shore Pipe Line Co., Cleveland, Ohio**
Feb. 15 FPC authorized this company to acquire, construct and operate pipeline facilities which will carry natural gas into northeastern Ohio for the first time. Financing plan includes the issuance and sale of $1,075,000 in bonds to Stranahan, Harris & Co. Inc., Toledo, O., $225,000 in preferred stock and $150,000 in common stock.

Lone Star Steel Co.
Jan. 16, E. B. Germany, President, announced that company will raise $5,000,000 through a common stock offering within the next 120 days to be first made to common stockholders. **Underwriters**—Probably Straus & Blosser; Estabrook & Co., and Dallas Rupe & Son. **Proceeds**—For expansion program.

Long Island Lighting Co.
Jan. 31, Edward F. Barrett, President, said an increase in the number of common shares is in prospect to assist in financing construction. These shares will be first offered to stockholders. How much stock will be issued has not yet been determined. Probable bidders may include W. C. Langley & Co.; Kidder, Peabody & Co.; Smith, Barney & Co.

Michigan-Wisconsin Pipe Line Co.
July 25 company received SEC authority to borrow not more than $20,000,000 from banks. A permanent financing program provides for the elimination of these bank loans prior to their maturity, July 1, 1951, and such program will include the issuance and sale of $12,000,000 additional bonds and $3,000,000 of additional common stock (latter to American Natural Gas Co., the parent). Previous debt financing was placed privately. If competitive probable bidders may include The First Boston Corp.; Harriman Ripley & Co., Inc.; Glore, Forgan & Co.

• **Middle South Utilities, Inc.**
Feb. 16, it was announced company plans issuance and sale of 450,000 additional shares of common stock (no par). **Underwriters** — To be determined by competitive bidding. Probable bidders—Union Securities Corp. and Equitable Securities Corp. (jointly); Blyth & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); The First Boston Corp. **Proceeds**—To finance part of 1951 construction program. **Bids**—Expected to be received some time late in March.

Mississippi Power Co. (7/17)
Feb. 6, it was reported that this company contemplates the issuance and sale of $4,000,000 of preferred stock (par $100). **Underwriters**—To be determined by competitive bidding. Probable bidders: W. C. Langley & Co., Glore, Forgan & Co. and Sterne, Agee & Leach (jointly); Blyth & Co., Inc.; The First Boston Corp.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Lehman Brothers; Union Securities Corp. and Equitable Securities Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—For construction program. **Bids**—Tentatively expected to be received on July 17. **Registration**—Scheduled for June 15.

Monongahela Power Co. (4/24)
Dec. 1 it was announced company plans issuance and sale of $10,000,000 of first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; W. C. Langley & Co. and The First Boston Corp. (jointly); Union Securities Corp. and Salomon Bros. & Hutzler (jointly): Lehman Brothers; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Glore, Forgan & Co.; Harriman Ripley & Co., Inc. **Proceeds**—For expansion program. **Offering**—Tentatively expected on April 24, with SEC registration on March 23.

• **Montana-Dakota Utilities Co.**
Feb. 16 company applied to the FPC for authority to acquire natural gas facilities of three companies operating in Montana and Wyoming and to construct additional facilities, estimated to cost $5,864,094. In connection therewith, and the proposed funding of $5,800,000 short-term bank loans, it is planed to issue and sell common stock, preferred stock and mortgage bonds for a total of $11,500,000. Traditional underwriters are Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane. Financing expected before April 1, 1951.

New England Power Co.
Jan. 24 it was estimated that $32,000,000 of new financing will be required prior to Dec. 31, 1952 (including the $12,000,000 of bonds filed with SEC). Between 70,000 to 80,000 shares of preferred stock may be initially offered. Probable bidders: Harriman Ripley & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; W. C. Langley & Co. Proceeds to be used to repay bank loans and for construction program.

• **New Jersey Power & Light Co.**
Feb. 19 it was reported that company tentatively plans to issue and sell $2,500,000 of preferred stock to public and $1,500,000 of common stock to General Public Utilities Corp., parent. **Underwriters**—For preferred to be determined by competitive bidding. Probable bidders: Drexel & Co., Kuhn, Loeb & Co., and Lehman Brothers (jointly); W. C. Langley & Co.; Smith, Barney & Co. and Union Securities Corp. (jointly); Kidder, Peabody & Co. and White, Weld & Co. (jointly); Salomon Bros. & Hutzler. **Proceeds** — For 1951 construction program. Expected late Summer and early Fall.

• **Northern Pacific Ry.**
Feb. 15 it was announced company plans to issue and sell $6,900,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Lee Higginson Corp.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Kidder, Peabody & Co.

Oklahoma Gas & Electric Co.
Dec. 20 D. S. Kennedy, President, said company is considering refunding outstanding $6,500,000 5¼% cumulative preferred stock (par $100) with an equal amount of preferred stock with a lower dividend rate and may issue additional common stock (par $10) provided market conditions warrant such action, to finance construction program. Probable underwriters: Lehman Brothers; Smith, Barney & Co.; Harriman Ripley & Co. Inc.

• **Oklahoma Gas & Electric Co.**
Feb. 7 it was announced that company plans some new financing in connection with proposal to build an $8,-750,000 power plant near Sulphur, Okla.

Pacific Gas & Electric Co. (3/19)
Feb. 8 directors authorized issuance and sale of 1,419,562 additional shares of common stock (par $25) to common stockholders of record on March 13, 1951 on the basis of one share for each seven shares held; rights to expire on April 14, 1951. The subscription period is expected to open March 19. **Price**—To be supplied later. **Underwriter**—Blyth & Co., Inc., New York. **Proceeds**—To be applied toward the cost of new construction, estimated to cost $130,000,000 in 1951.

• **Pennsylvania Electric Co.**
Feb. 16 it was reported company plans to issue and sell $3,000,000 of first mortgage bonds, $2,500,000 of preferred stock and $2,500,000 of common stock (latter to General Public Utilities Corp., parent). **Underwriter**—To be determined by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp. and White, Weld & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Kuhn, Loeb & Co., Lehman Brothers and Drexel & Co. (jointly); Harriman Ripley & Co., Inc. Probable bidders for preferred stock: W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Kuhn, Loeb & Co.; Smith, Barney & Co.; Kidder, Peabody & Co.; Harriman, Ripley & Co., Inc. **Proceeds**—For 1951 construction program. Expected late Summer or early Fall.

Pennsylvania Power & Light Co.
Jan. 26 it was announced that an offering of 40,000 shares of preferred stock is expected to be announced shortly. **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp. and Drexel & Co. (jointly); Blyth & Co., Inc.; White, Weld & Co.; Harriman Ripley & Co., Inc. **Proceeds**—To finance, in part, the company's expansion program.

Pitney-Bowes, Inc.
Feb. 5 directors voted to submit to stockholders on April 4 a plan to increase authorized preferred stock by 60,000 shares in order to have such shares available in the event that future conditions require new financing. Latest preferred stock financing was placed privately through The First Boston Corp.

Portland General Electric Co.
Jan. 27, Thomas Delzell, Chairman, said that the $20,-000,000 Deschutes River project, temporarily being financed by short-term borrowings and bank loans, may be refinanced some time prior to May 1, 1952, by the sale of long-term bonds and common stock. The latest stock financing was handled by Blyth & Co., Inc. Probable bidders for bonds may be Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler and Shields & Co. (jointly); First Boston Corp.; Harriman Ripley Co., Inc.

Potomac Edison Co. (4/3)
Dec. 1 it was announced that company plans to issue $10,000,000 of first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co. and The First Boston Corp. (jointly); Kidder, Peabody & Co. and Alex Brown & Sons (jointly); Glore, Forgan & Co.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc., and Union Securities Corp. (jointly); Lehman Brothers; Equitable Securities Corp.; Drexel & Co. **Proceeds**—For expansion program. **Offering**—Expected on April 3 with SEC registration tentatively scheduled for March 2.

Public Service Co. of Colorado
Nov. 1, J. E. Loiseau, President, announced that "it will be necessary to raise additional funds for construction purposes in the second quarter of 1951. The amount needed is estimated at about $7,000,000." Probable bidders for a reported issue of $15,000,000 new bonds are: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Smith, Barney & Co. (jointly); The First Boston Corp.; Lehman Brothers; Kidder, Peabody & Co.; Harris, Hall & Co. (Inc.); Glore, Forgan & Co. and W. C. Langley & Co. (jointly).

Public Service Co. of North Carolina, Inc.
Feb. 9 company filed with FPC a second amended application in connection with a proposed natural gas system to serve 34 communities in North Carolina. It is now proposed to build seven lateral lines, aggregating about 168 miles in length. Estimated total capital cost is approximately $4,500,000, which would be financed by the issuance of first mortgage bonds and junior securities.

Public Service Co. of Oklahoma (4/9)
Feb. 9 it was stated that company plans issuance and sale of $10,000,000 of first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.; White, Weld & Co. and Shields & Co. (jointly); The First Boston Corp.; Kuhn, Loeb & Co. and Union Securities Corp. (jointly); Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. **Proceeds**—For new construction. **Registration**—Expected about March 5. **Bids**—Tentatively expected to be received up to April 9.

• **River Brand Rice Mills, Inc. (3/21)**
Feb. 19, it was reported registration of 250,000 shares is expected about Feb. 28. **Underwriter**—Lee Higginson Corp., New York. **Offering**—Tentatively scheduled for March 21.

Salem Gas Light Co.
Jan. 26 company applied to SEC for authority to issue and sell to common stockholders 30,236 additional shares of capital stock (par $10) to common stockholders on the basis of two new shares for each three shares held. New England Electric System (parent), owner of 42,138 shares (92.9%) of the 45,353 outstanding shares, will subscribe for 28,092 shares, plus any not subscribed for by the minority stockholders. **Price**—$15 per share. **Proceeds**—To repay bank loans and advances from parent, and the remainder for expansion program.

Schering Corp.
Feb. 2 it was reported that the company's entire common stock issue (440,000 shares) was expected to be registered with the SEC in the near future and offered for sale probably in March to the highest bidder by the Office of Alien Property. Probable bidders: A. G. Becker & Co. (Inc.), Union Securities Corp. and Ladenburg, Thalmann & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; F. Eberstadt & Co.; Allen & Co.; new company to be formed by United States & International Securities Corp.; Dillon, Read & Co.; F. S. Moseley & Co.; Riter & Co.

Sharon Steel Corp.
Jan. 29 it was announced that as a preliminary to financing some phases of the corporation's $49,000,000 expansion program, stockholders will be asked to vote at the annual meeting March 22 to increase the debt ilmit of the company to $30,000,000 and to increase authorized capital stock to 2,500,000 from 1,000,000 shares. At present, the company has 925,863 shares outstanding. The company's expansion plan, recently announced, will sharply increase ingot capacity, pig iron and coke output and finishing facilities. The additions and improvements are to be completed over the next five years.

South Jersey Gas Co.
Feb. 7 it was reported that this company is planning to refinance its outstanding $4,000,000 of 4⅛% bonds and $3,338,000 of short-term bank loans with a new issue of bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders may include Halsey, Stuart & Co. Inc.

Southern Co. (4/3)
Feb. 6 it was reported that the company plans to issue an additional 1,000,000 shares of common stock (par $5). **Underwriters**—To be determined by competitive bidding. Probable bidders: Morgan Stanley & Co., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Union Securities Corp. and Equitable Securities Corp. (jointly); Blyth & Co., Inc.; Lehman Brothers; Harrimon Ripley & Co., Inc. **Proceeds**—For construction program. **Bids**—Expected to be opened at 11:30 a.m. (EST) on April 3 at company's office, 20 Pine Street, New York, N. Y. **Registration Statement**—Scheduled to be filed with SEC on March 2.

Southern Union Gas Co.
Jan. 18 it was announced company plans to issue and sell approximately 27,000 shares of preferred stock (par $100) and approximately $4,000,000 of first mortgage bonds (in addition to the 150,799 additional shares of common stock filed with SEC on Jan. 8.—see preceding columns).

• **Standard Fruit & Steamship Corp. (2/26)**
Bids will be received up to noon on Feb. 26 for the purchase from Hibernia Bank & Trust Co., in liquidation, 405 Baronne Building, New Orleans, La., of 8,025 shares of Standard Fruit $3 participating preference stock.

• **Stearns Manufacturing Co., Inc.**
Jan. 31 Federal Judge F. A. Picard, at Detroit, Mich., directed Besser Manufacturing Co. to sell its 87,000 shares of Stearns common stock (198,763 shares outstanding).

Texas Gas Transmission Corp.
Jan. 3 company asked FPC permission for approval of a $42,300,000 construction program, which will include the building of 580 miles of pipe line to supply natural gas in its own mid-Western service area and in Appalachian markets. The program would increase the capacity of the Texas-to-Ohio pipe line system to over 900,000,000 cubic feet per day. Tentative plans include the sale of around $30,000,000 bonds (which may be placed privately with insurance firms) and about $10,000,000 of preferred stock (depending upon market conditions). The balance of the funds needed will be obtained from treasury cash or temporary bank loans. Traditional underwriter is Dillon, Read & Co. Inc., New York.

Trion, Inc.
Feb. 8 stockholders increased authorized common stock from 150,000 shares (par $2) to 2,000,000 shares, in a step preliminary to the sale of additional stock. Previous financing handled by Graham & Co., Pittsburgh, Pa. Proceeds would be used to handle expanded defense business.

United Artists Corp.
Feb. 8, Paul V. McNutt, Chairman, announced that a refinancing of the corporation has been arranged.

Virginia Electric & Power Co.
Feb. 1 it was announced that (in addition to proposed issue and sale of 100,000 shares of preferred stock (par $100) filed with SEC on Feb. 1) further financing in 1951 is anticipated in an amount which may aggregate $25,000,000. The proceeds will go toward company's construction program.

Worcester County Electric Co.
Jan. 22 it was stated early registration is expected of $12,000,000 first mortgage bonds. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; The First Boston Corp.; Harriman Ripley & Co. Inc. **Proceeds**—To retire bank loans.

Continued from page 2

The Security I Like Best

CHARLES A. TAGGART
President, Charles A. Taggart & Co., Inc., Philadelphia, Pa.

Plymouth Cordage Co.

A year ago, in writing about "The Security I Like Best," I selected one because of its past record. Since that selection turned out so well (it practically doubled in price while paying generous cash dividends), I see no reason why I should not again recommend one because of its past record. The one last year was West Point Manufacturing Company capital stock, which subsequently paid a 100% stock dividend and almost doubled in price.

Charles A. Taggart

Another company with an excellent long-term record is Plymouth Cordage, and I select its stock for recommendation now. There is always a demand for the company's products in varying degrees and it has kept pace with its sources of raw materials as world conditions have changed. It has demonstrated successively good management over the 126 years it has been in existence.

The company has no long-term debt nor preferred stock. Sole capitalization consists of 269,839 outstanding $25 par shares and 6,300 of $2.50 par employees' stock.

An excellent financial position is consistently maintained.

Dividends were paid on the stock in all but three years, between 1832 and 1900, and have been paid continuously since 1860, or for 92 years through four wars and as many depressions.

If an investor had purchased Plymouth Cordage stock at the average 1937 price of $106 a share, he would have paid $10,600 for 100 shares. Without any additional investment, he would today have 400 shares worth $20,400. There was a 4-for-1 split in 1945.

In the meantime, 1938 through 1950, the investor would have received $10,750 in cash dividends, making the total gain $20,550.

The $10,750 in cash dividends, when divided by the 13 years (1938 through 1950), equals $827 a year or an average yearly income of 7.80% on the investor's original investment of $10,600.

Plymouth Cordage Company ended its fiscal year Sept. 30, 1950, with:

Total Assets of	$19,314,000
Cash of	5,010,000
Working Capital of	11,902,000
Book Value per Share	$56.50
Net Current Assets per Share	$43.00

Plant and equipment at a cost of $11,276,000 was carried at a depreciated value of only $4,079,000.

The fiscal year which ended Sept. 30, 1950, was a highly profitable one for Plymouth Cordage. Earnings were equal to $8.18 a share. The total of $4.40 a share of dividends paid in the calendar year 1950 was therefore conservative. Some of the profit was due to the company's inventory position, handled on a "last in, first out" basis.

Plymouth Cordage, so well established in the production of rope and twine, should experience considerable demand for its products in connection with plans for defense. Supplies of fiber are imported, but ropes of nylon and fiberglass are more recent developments. I do not hesitate to recommend the stock of Plymouth Cordage for inclusion in the equity portion of any investment portfolio.

New England Pow. Co. 2⅞% Bds. Offered by Halsey, Stuart Group

An underwriting group headed by Halsey, Stuart & Co. Inc. yesterday (Feb. 21) publicly offered $12,000,000 New England Power Co. first mortgage 2⅞% bonds, series D, due 1981, at 102.129% and accrued interest. The group won award of the bonds at competitive sale on Monday on its bid of 101.66%.

Proceeds from the sale of the series D bonds will be used to pay borrowings under a bank letter agreement, aggregating not more than $10,500,000 which will be evidenced by 2¼% notes due May 31, 1951. The balance will be used to reimburse the treasury for construction expenditures or to pay for future construction work.

The new bonds may be redeemed, ordinary way, at prices from 104.95% to 100%. Special redemption prices range from 102.09% to 100%.

New England Power Co. is engaged in the generation, transmission, purchase and sale of electricity for light, heat, power, resale and other purposes. Direct sales of electricity to ultimate consumers are made only to large users. Territory in which the consumers of the company are located is, in general, thickly settled and highly industrialized. Principal industries served include metal and metal products, cotton and woolen textiles including manufactured clothing, chemical and allied products, paper and printing, food and kindred products, rubber products and shoe and leather goods. Transmission lines of the company span Massachusetts, extend into Vermont and New Hampshire, and are interconnected with lines of other companies at bordering state lines.

William Collins Adds

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg.—George R. Johnson has been added to the staff of William J. Collins & Co., U. S. National Bank Building. He was formerly with Sloan & Wilcox and Hughes, Humphrey & Co.

Joins Foster & Marshall

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg.—Herbert R. Bachofner has joined the staff of Foster & Marshall, U. S. National Bank Building.

With Donald C. Sloan

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg.—John Ferguson is with Donald C. Sloan & Co., Cascade Building.

With Scott, Horner

(Special to THE FINANCIAL CHRONICLE)

LYNCHBURG, Va. — John W. Davis and Charles M. Bradley are with Scott, Horner & Mason, Inc., Krise Building.

With Kirchofer & Arnold

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C. — Samuel F. Blythe is with Kirchofer & Arnold Associates, Inc., Johnston Building.

Dealer-Broker Investment Recommendations and Literature

dum—Illinois Company, 231 South La Salle Street, Chicago 4, Illinois.

Detroit Edison Company—Copies of annual report—Treasurer, The Detroit Edison Company, 2000 Second Avenue, Detroit 26, Mich.

Flying Tiger Lines—Memorandum—Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

Hecht Co.—Memorandum—T. Rowe Price & Associates, 10 Light Street, Baltimore 2, Md.

Interstate Bakeries Corp.—Memorandum—H. M. Byllesby & Co., Inc., 135 South La Salle Street, Chicago 3, Ill.

Jessop Steel Co.—Memorandum—Leason & Co., 39 South La Salle Street, Chicago 3, Ill.

Also available are memoranda on **Kingsburg Cotton Oil Co.** and **Labrador Mining & Exploration Co.**

Maine Central vs. Nickel Plate—Analysis—Raymond & Co., 148 State Street, Boston 9, Mass.

Also available is an analysis of **Verney Corp.**

Marathon Corp.—Memorandum—Lee Higginson Corp., 40 Wall Street, New York 5, N. Y.

National Company, Inc.—Analysis—J. B. Maguire & Co., Inc., 31 Milk Street, Boston 9, Mass.

Permutit Company—Analysis—Coffin, Betz & Co., 123 South Broad Street, Philadelphia 9, Pa.

Portland General Electric Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Rhodesia Broken Hill Development Co., Ltd.—Report on zinc and lead producer—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Riverside Cement Company—Card memorandum—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Also available is a memorandum on **Gear Grinding Machine Co.** and on **Seneca Falls Machine Co.**

Scurry Oils Limited—Analysis—Dilner, Ross & Co., 330 Bay Street, Toronto 1, Ont., Canada.

Sinclair Oil Corp.—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Southwestern States Telephone Co.—Special report—Hodgdon & Company, 10 State Street, Boston 9, Mass.

Wisconsin Power & Light Company—Report—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Our Reporter's Report

The atmosphere in underwriting circles is none-too-rosy at the moment what with potential buyers of new securities, that is debt issues, still playing "hard-to-get" even though almost two months of the new year have come and gone.

Institutional buyers have been more or less "sitting on their hands" since mid-December, as one banker puts it, and their resistance reveals little to indicate an early change in the situation.

Things might be considerably different, it is argued, but for the fact that these investors are finding sizable outlets for the funds through the medium of a rather heavy volume of private placements.

New debt issues brought out since the turn of the year have had hard-sledding and the experience of two deals closed this week, via the competitive bidding route, encountered the same brand of buyer-resistance upon public offerings.

Bankers who have spent years in the business of marketing new securities do not see any real break in the present situation as likely to develop while the Treasury and the Federal Reserve Board remain at loggerheads over control of the money market

Consequently, they are pulling for an early move on the part of Congress to straighten the matter out. But then they realize that this is a real "hot potato" and that Congress will be wary of being snared.

So. Calif. Edison Bonds

The group which took down Southern California Edison Co.'s $35,000,000 of first and refunding 25-year bonds found preliminary inquiry slow, to say the least, following the opening of bids.

The winners paid the utility 100.859999 for a 2¾% coupon rate and fixed a reoffering price of 101.34 for an indicated yield of 2.80% to maturity. Other bids ranged down to a low of 100.1499. The runner-up bid of 100.848 was barely a cent under the top.

Reports indicated only a small portion of the total had been spoken for up to offering time. Meanwhile, New England Power Co.'s $12,000,000 of first mortgage, 30-year bonds, priced at 102.129 to yield 2.77%, also were reported lagging.

New Rail Issue in Sight

Another large piece of railroad financing moved into sight as reports told of plans of Denver & Rio Grande Western for refunding certain outstanding obligations.

Expected to reach market some time in May, this undertaking may run to $40,000,000 of new first mortgage bonds.

The road has outstanding $35,000,000 of 4% bonds, callable at 104½ while its Denver & Salt Lake Division has $8,700,000 of 4s which are callable at 102.

Pipe Line Stock

Transcontinental Gas Pipe Line Corp. has completed negotiations with a banking group for the flotation of an issue of 550,000 shares of new cumulative preferred stock, $50 par, with a $2.55 dividend rate.

The issue already has gone into registration and, accordingly, will be available for marketing in a fortnight or so if conditions are right. Offering price will be filed by amendment at that time.

Proceeds will be used for redemption at 106 and interest of currently outstanding interim notes bearing a 6% interest rate, and for general purposes.

Columbus & So. Ohio Electric

Having budgeted $55,000,000 for new facilities over the next three years, on top of $52,780,500 spent for such expansion since the end of the war, the Columbus & Southern Ohio Electric Co., plans to raise part of the new funds through common stock.

Part of the necessary funds doubtless will be raised through further recourse to the bond market, but the annual report says it is now contemplated that additional common stock will be offered before the end of June.

The company has been getting part of its funds on a temporary basis through a revolving credit carrying an interest cost of 2½%, plus a standby fee of ½ of 1% on the unused portion of the loan.

Kenneth Sarles With Dean Witter & Co.

Kenneth D. Sarles is with Dean Witter & Co., 14 Wall Street, New York City. Mr. Sarles was formerly with Shelby Cullom Davis & Co. and was New York City Manager for Otis & Co.

Noble to Manage New Boston Office of Coburn & Middlebrook

BOSTON, Mass. — Coburn & Middlebrook, Inc., announce the removal of their Boston office to new and larger quarters at 75 State Street. Arthur D. Noble will be in charge.

Business Man's Bookshelf

Foreign Investment—Sir Arthur Salter—International Finance Section, Department of Economics and Social Institutions, Princeton University, Princeton, N.J.—paper.

Our Changing Economy and the Securities Markets—Franc M. Ricciardi and Philipp H. Lohman—The Dealers' Digest Publishing Co., Inc., 150 Broadway, New York 7, N. Y.—paper—$1.00.

Social Responsibility of Management, The—Lectures by Stuart Chase, Stanley H. Ruttenberg, Edwin G. Nourse, William B. Given, Jr. — School of Commerce, Accounts, and Finance, New York University, Washington Square, New York 3, N. Y.—cloth—$2.00.

Dow Theory, The—Robert Rhea—Rhea, Greiner & Co., 301 East Pikes Peak Avenue, Colorado Springs, Colo.—$3.50.

The Pulp, Paper and Board Industry—Vol. IX of an Engineering Interpretation of The Economic and Financial Aspects of American Industry—George S. Armstrong & Co., Inc., 52 Wall Street, New York 5, N. Y.—Paper.

Speculative Merits of Common Stock Warrants—Sidney Fried—Dept. C, R. H. M. Associates, 220 Fifth Avenue, New York 1, N. Y.—$2 (or send for descriptive folder).

An Old Wall Street Man Passes at Age 70

The Wall Street friends and customers of Carl C. Shippee, senior member of the New York Stock Exchange firm of Shippee & Rawson, will regret to hear of Mr. Shippee's passing at his home in Fair Haven, N. J., last Friday. Mr. Shippee was a Harvard man, of New England background and when he and Mr. Rawson left Hornblower & Weeks in 1917 they formed the firm of Shippee & Rawson. The partnership continued until Mr. Rawson's retirement in 1932. Mr. Shippee and Mr. Rawson were old school gentlemen and exemplars of the highest principles and ideals in their chosen profession.

Jefferson Davis Cohn

Capt. Jefferson Davis Cohn passed away at the age of 70. An international financier, he was recently associated with Pyne, Kendall & Hollister, New York City.

T. M. Hess Joins J. Barth & Co.

SAN FRANCISCO, Calif. — Thomas M. Hess has become associated with J. Barth & Co., 482 California Street, members of the New York and San Francisco Stock Exchanges. Mr. Hess was formerly with William R. Staats Co. and E. F. Hutton & Co. In the past he was a member of Gibbons & Hess.

With Hooker & Fay

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—William J. Tillier is with Hooker & Fay, 315 Montgomery Street, members of the San Francisco Stock Exchange.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — Speed arms production, or make a serious effort to control inflation?

This, according to well-placed informants, is the question which a few weeks ago faced the most important officials on whom rested the power of decision.

The decision was for arms production. Therein, it is explained, is the key to much of what has happened in this capital in the last several weeks.

With the return of Congress, there was a clamor for inflation control. The cost of living was rising sharply. There was a demand that it be halted.

To halt the rising cost of living, however, meant using genuine restraint against the upward movement of wages, as well as against price increases generated by rising wages and other causes.

At the present time the Administration's key controllers are former businessmen. They bloodied their heads for years trying to buck the impregnable line of organized labor backed by government. In the process they learned better.

If labor doesn't get a good share of what it asks for, labor will strike. That will interrupt production. The only way in which labor could be made to "sacrifice" for the sake of inflation, would be to pass legislation placing legal curbs upon labor's coercive power, or to take action under the Taft-Hartley Act, directed to the same end. This judgment was underscored by labor's howl on the 10% formula.

Controllers took a practical look at the political situation. They decided that there was no greater certainty upon which they could count, than the refusal of President Truman to back any move or himself make any move which would diminish any percent of labor's decisive bargaining power at this time of acute labor shortage.

So — production of arms being the primary goal — the decision was to give in to labor.

This does not mean that men like Charles E. Wilson and Eric Johnston mean to give labor everything it wants the first hour it asks for it. Officials would like the government as a part of "wage control" to act like a good business executive in a collective bargaining negotiation. They would like the government to stall along as long as possible. They would prefer that the government give less than labor asks for. These are desirable objectives, but may prove difficult of achievement under such a Rube Goldberg-like device as the Wage Stabilization Board.

Officials figured that if they tried to hold down wages, there would be long, costly, and production-delaying strikes. If this travail could produce effective wage stabilization, it might be worth a try. But it wouldn't for sure, officials figured. In the end labor would get the White House blessing, and win.

In the meantime, production would be lost, and to no point.

With respect to price increases, the leading control officials also are taking a "realistic" view. They view as arrant nonsense the philosophy of some of the former Roosevelt "economists" that industry can absorb labor costs.

There again, the problem is production. If price control were to wheel around and mess around and argue whether corporation earnings would make possible the absorption of higher wage costs, they might be able to force some of this viewpoint down the throats of business. In the process, however, they wouldn't be doing much about encouraging production.

So the residual function of the so-called price and wage controls has been to give the appearance of control to quiet the political clamor for "doing something" which rose to a peak during the first few weeks of this year. So the biggest function of "price and wage control" is to make a lot of noises that sound like price and wage control.

This does not suggest that the "realistic view" will result in all smooth sailing for producers. The necessity for seeming to act like price controllers will undoubtedly result in a lot of bickering, uncertainty, inconsistent administrative orders, and some substantial snafus. It is only the underlying motivation which is clear.

* * *

During both the present and post War II eras, the Truman Administration made loud passes at controlling inflation.

During the postwar era, however, the Administration was little concerned with controlling inflation, but was instead concerned with deflecting blame from itself for the accompaniment of inflation—a higher cost of living. This was the consequence of the inflation it never seriously dared control, for fear of bringing deflation and political defeat.

During this military build-up era, however, the Administration would genuinely like, if it could, to control inflation. That is because the inflationary steam behind rearmament will push the whole cost of living up too fast and jeopardize several things. Then, too, the spending force of rearmament would guarantee that certain deflationary actions, if taken, would not threaten to bring about a general era of deflation.

However, as of this moment most of the Administration — if perhaps not Mr. Truman himself—has come to recognize that inflation cannot be controlled.

So with taxes as well as "credits control." As reported heretofore, the Administration does not see how it can promote expansion of arms production, civilian goods, and industrial capacity to produce both—all three forms of expansion—under a scheme of any sort which imposes a shut-down on total capacity of lending institutions to create credit.

As to taxes, most every one in the know around here took it for granted that the decision to have a "two package" tax bill was a tacit step to abandon "pay as you go," for the Congress will do well if it enacts three-fourths of one package. None of the birdies around the White House, however, will whisper this in your ear.

* * *

It's a pretty good bet that the Federal Communications Commission will **not** order a cut of $18 to $19 million in long distance telephone rates, in a proceeding beginning April 1, as the FCC announced it would do.

Chairman Wayne Coy announced this proceeding without going through the customary courtesy of notifying in advance the appropriate legislative official; in this case the chairman of the communications subcommittee of the Senate Interstate Commerce Committee.

State officials have bitterly resented the disposition of FCC to cut long-line rates, thereby making the earnings case of local telephone companies that much better when they apply for boosts in intrastate telephone rates.

So the Federation of Railroad and Utilities Commissioners, the association of the state rate regulatory agencies, has formally petitioned FCC to establish a different accounting base, allocating a greater share of telephone plant investment to intrastate and local business.

The FRUC consists of regulatory officials either locally elected, or tied in, if appointed, with local political parties. Hence its influence in Congress is enormous, even though it is little heard about in national news. The Chairman of the communications subcommittee is reported to be wholly in favor of the FRUC proposal.

It happens that this subcommittee Chairman also is influential. He is Senator Ernest McFarland, the Democratic leader. He was furious when Coy put out this order, wrote a blistering letter to FCC.

* * *

Notes on the materials control front:

National Production Authority "now has a clearer idea than ever" of military requirements for scarce materials.

Defense Production Authority, "overlord" to NPA, now has been given permission to question closely military requirements, on the theory that "the military always wants all it can get." It is said that Gen. Wm. Harrison definitely is asking "why" on these requirements.

The first test runs on a controlled materials plan for steel, copper, and aluminum are being run—with various agencies getting up statistical estimates of probable military and necessary civilian requirements for these primary metals. The schedule of July 1 as the day for beginning CMP still holds, it is reported.

Although the steel and auto industries are fighting the application of CMP to civilian uses, it is believed they will lose.

* * *

Notes on government spending:

Last July 28 Mr. Truman "froze" appropriations for making loans up to 40 years at 2¾% to provide housing for students and faculty at colleges and universities. This was passed as part of the 1950 Housing Act, when the combination of VA-financed GI students and the boom was causing the colleges to burst with enrollment.

Now with a new draft and the leveling off of GI educational benefits, enrollment is on the decline. Nevertheless, the President has "released" $40 million to pay for college housing, "strictly defense," of course.

Congress in 1949 passed as part of the Public Housing Act a brand new set-up giving Housing and Home Finance Agency power to "research" housing all over the place. In a remarkable "report," Richard U. Ratcliff, housing research director, tells in the most resounding 5,000 words, how housing research has been mobilized for defense, and yet this has been accomplished "without a major shift in direction."

Key to this gimmick is that a couple of dozen institutions of higher learning are standing at the pay window, ready for "research contracts."

Under another part of the 1949 act, the government will pay gratis two-thirds of what a city loses in clearing a slum area and re-selling the land, and will lend the entire cost. Grants are "frozen" except where slum clearance is for "defense." But officials are putting the steam on cities to line up hundreds of projects. If some "defense" need cannot be found for them, then all these projects will be ready for expenditure, just in case anybody ever has any idea of a balanced budget after whatever war this is.

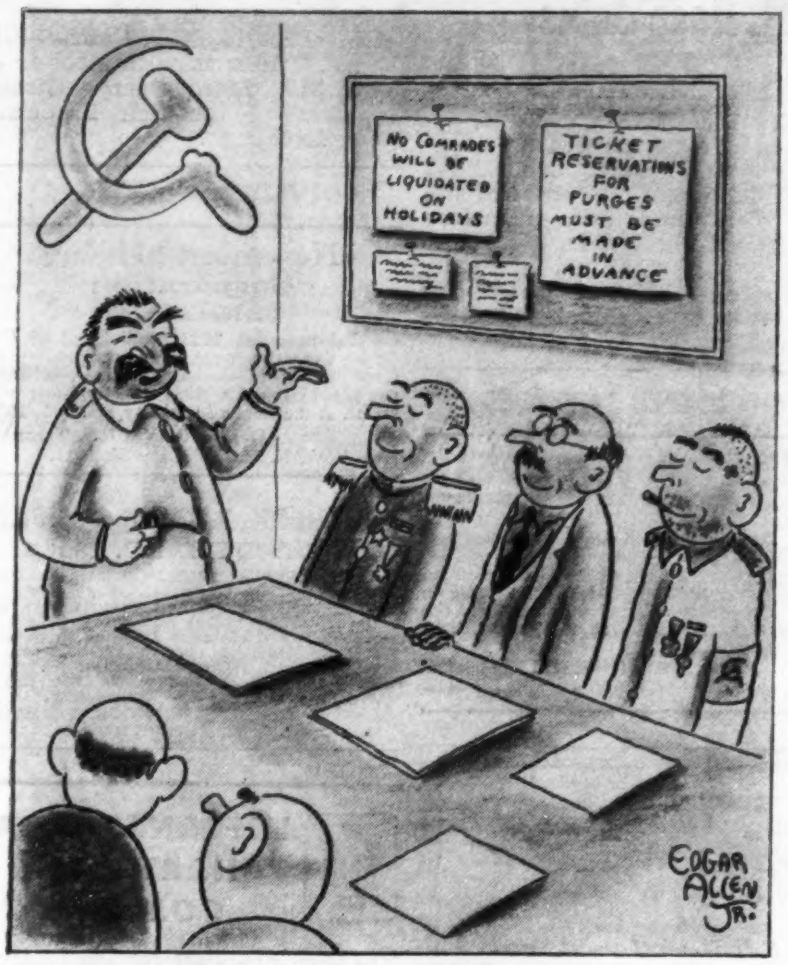
These projects show that:

(1) When a new program is authorized out of some political debate, it goes on and on, even if all the conditions which allegedly called for the program have disappeared or have been changed, or new circumstances arise.

(2) Even though the subject of "slum clearance" or college housing or housing research once adopted by Congress disappears from the front pages in the current year's news and worries, there soon become vested recipients who don't forget about it.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ



"—And I feel I can say without successful contradiction——"